Daily Report

Latin America

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FBIS-LAT-90-163 *22 August 1990*

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Safety of Chileans, Argentines in Gulf Addressed

FL2108163190 Bridgetown CANA in English 1414 GMT 21 Aug 90

[Text] Washington, D.C., Aug 21, CANA—The Organisation of American States is making moves to seek protection for Latin Americans who are trapped in Iraq and Kuwait. Thousands of Westerners are being held hostage by Iraqi President Saddam Husayn at military installations to ward off the possibility of attack by forces gathered in the Presian Gulf to prevent Iraqi oil exports in the wake of the invasion and annexation of Kuwait.

OAS Secretary General Joao Clemente Baena Soares on Monday contacted the Arab League on the safety of Latin Americans—in particular Chileans. Chile's deputy foreign minister, Edmundo Vargas Carreno, and the Chilean permanent representative to the OAS, ambassador Heraldo Munoz, expressed their "concern over the situation of Latin Americans who are currently in Iraq and Kuwait, as well as in other places involved in the conflict in the Persian Gulf." Baena Soares said that for the time being his office would concentrate on the Chilean citizens who are in Iraq and Kuwait "because I have not received any requests from other member states."

Vargas Carreno mentioned that Foreign Ministers Silva Cimma, of Chile, and Cavallo, of Argentina, had already expressed their wish that the OAS and its secretary-general take up a good offices initiative in favor of the Latin American citizens who are prevented from leaving Iraq and Kuwait. He said that there at least 10 Chileans in Iraq and Kuwait. The topic of Chileans and other Latin Americans who are in the Persian Gulf region could be dealt with during a meeting Wednesday of the Permanent Council of the OAS, presided over by ambassador Edmund Hawkins Lake, of Antigua and Barbuda, despite the fact that the subject is not on the agenda for the meeting.

"I would not dismiss the possibility that the matter could come up in the councils meeting," Munoz said.

Vargas Carreno is in Washington to deposit with the OAS the instrument of ratification of the American Convention on Human Rights, on behalf of the Government of Chile.

Cuba

Ambassador to UN Presents Draft Resolution

PA2108150090 Havana International Service in Spanish 1403 GMT 21 Aug 90

[Text] Citing humanitarian reasons, Cuba has demanded that the UN Security Council exclude food and medical supplies from the economic embargo against Iraq. Yesterday, Ricardo Alarcon, Cuban ambassador to the United Nations, presented a draft resolution expressing profound concern over the security and welfare of civilians as well as foreign residents in Kuwait and Iraq. Alarcon said further that none of the sanctions against Iraq should be allowed to affect the population living in those countries, either locals or foreigners. Alarcon went on to severely critize the unilateral U.S. blockade, which is contrary to Security Council resolutions. He said that witholding food is forbidden by all approved international agreements dealing with the treatment of civilians during armed conflicts.

Havana Notes Alarcon's Proposal

FL2108180290 Havana Tele Rebelde Network in Spanish 1700 GMT 21 Aug 90

[Excerpt] The White House has failed in its attempt to get the UN Security Council to legitimize the naval blockade unilaterally imposed by the United States against Iraq.

In an urgent meeting called by the U.S. Government itself, the council decided to postpone the discussion of this topic because of the evident lack of support for this measure among the rest of the council members.

Washington had presented a proposal authorizing its troops to detain and register any boat in the Persian Gulf which it considered suspicious. The Bush Cabinet used the deployment of an Iraqi ship allegedly carrying oil to the Yemeni coasts as its excuse to do this. Despite the decision of the Yemeni Government to adhere to the economic sanctions against Iraq, the UN council suspended discussion of the U.S. proposal.

In this regard, the Cuban representative to the United Nations, Ricardo Alarcon, rejected the U.S. action, which he said violates the most basic norms of international law. Alarcon said that Cuba firmly opposes the use of hunger as a weapon of war in any conflict, as is reaffirmed in all international conventions on this matter.

Previously, our country's representative had proposed a resolution demanding that the UN Security Council put an end to the embargo on food, medicine, and medical assistance to Iraq, as stated in Resolution 661. Of course, the United States is opposed to this and it has forcibly prevented the entrance or exit of any cargo ship to Iraq or Kuwait.

In the meantime, the White House continues to deploy its air and naval forces and troops to the conflict zone. In the last few hours, two new ships with the ability to transport 420 soldiers each departed for the Gulf. [passage omitted]

Refugees Freely, Unconditionally Leave Residence

PA2108180690 Madrid EFE in Spanish 1601 GMT 21 Aug 90

[Excerpt] Havana, 21 Aug (EFE)—Belgian Embassy sources told EFE today that four of the nine Cuban refugees at the Belgian ambassador's residence left the building on 20 August, freely and unconditionally. The refugees were the first four to jump the fence at Belgian Ambassador Luis Cornet Delzius' residence in Havana, in the Miramar residential district, on 13 August.

The four range in age from 20 to 40. When they entered the residence, they asked for political asylum and visas to leave Cuba.

After leaving the residence, the four refugees were taken to their homes by Cornet and his aides, according to Cornet, who had to interrupt his vacation at Key Largo because the Cubans had entered his residence. Cornet explained that regular contact with the refugees will continue. He denied that talks are underway with the Cuban authorities about the refugees.

At the ambassador's residence, there are still three men and two women who entered on 14 August, after getting past the strong police cordon placed outside the residence after the first four Cubans entered the day before.

At present, there are 21 Cubans at the diplomatic missions in Havana: 16 at the Spanish Embassy, and five at the Belgian ambassador's residence. [passage omitted]

More on Refugees

PA2208031490 Madrid EFE in Spanish 0236 GMT 22 Aug 90

[Text] Havana, 21 Aug (EFE)—One of the 16 Cuban refugees who took asylum in the Spanish Embassy in Havana and three of the five who took asylum in the residence of the Belgian Ambassador left today, diplomatic sources from both embassies told EFE.

Luis Monteagudo Rodriguez, 27, was the first of the Cubans who took asylum in the Spanish Embassy on 22 July, Spanish Charge d'Affaires Ignacion Ruperez told EFE.

Belgian Ambassador Louis Cornet Delzius told EFE that two women and a man left his residence tonight, leaving only two refugees in the residence.

Apparently none of the four refugees have been detained by Cuban authorities.

Vice Foreign Minister Oscar Oramas Visits PRC

FL2108202590 Havana Radio Reloj Network in Spanish 1934 GMT 21 Aug 90

[Text] Cuban Vice Foreign Minister Oscar Oramas arrived today in Beijing. He was met at the airport by his Chinese counterpart (?Liu Huaqiu), with whom he talked amicably about bilateral relations. The vice foreign minister's visit to China is part of the exchange agreements between the two countries signed during Cuban Foreign Minister Isidoro Malmierca's stay in Beijing last year, and because of the upcoming celebration of the 30th anniverary of diplomatic ties between the two countries.

Aspects of Crime Prevention Conference Analyzed

FL2108173090 Havana Tele Rebelde Network in Spanish 0100 GMT 21 Aug 90

[Roundtable with Attorney General Ramon de la Cruz Ochoa, Supreme Court President Raul Amaro, and journalists Maribel Puerto, Graciela Hernandez, and Antonio Resillez on the United Nations Eighth Crime Prevention and Rehabilitation Congress that will be held in Havana from 27 August to 7 September, place not given—live]

[Excerpts] [Resillez] [passage omitted] Doctor De la Cruz, what is the crime situation in Cuba today?

[Cruz] Just as the UN report says, criminal activity is on the increase worldwide. Very few countries in the world can say that crime is not a serious social problem for them. Cuba does not escape this reality, and we are far from solving the problem. However, as we heard in the last session of the National Assembly, our crime situation has its own peculiarities when compared with the crime situation in other countries. What are these peculiarities? Sixty percent of all crimes in the country are against property. These crimes threaten society only in a small way. They include theft, larceny, particularly robbery involving goods worth less than 100 pesos, or 500 pesos in cases of theft.

Robbery cases, however, create great concern among the population. They constitute aggressive behavior and people worry about it, but the figures are not alarming. We have also said—and this was discussed at the National Assembly—that we are concerned about economic crimes, that is, the improper use of state property and other economic crimes. These crimes are present in Cuban society today but we are trying to eradicate them. To answer your question about criminal activity in Cuba—which of course exists because we are not living in heaven—I have to say that the situation is not very serious or dangerous for society. [passage omitted]

[Resillez] We want to know a little more about the congress, what kind of experts or organizations will participate?

[Cruz] This is essentially a technical congress for professionals working in the areas of criminal prevention and penal justice. We will discuss UN recommendations and programs that can be adopted by member countries. The discussions will encompass a broad spectrum of the penal system from crime prevention to the justice system. We will discuss the roles of the police, the Attorney General's Office, the courts, and the prison system. Previous congresses have always discussed technical ways to improve crime prevention and the justice system. They have never been involved in political discussions and they have always avoided discussing concrete situations of countries. We will also discuss possible solutions but only the technical aspects.

Who will participate? First, UN state members are invited to participate in this kind of event that is held every five years. Also invited to participate—as established by an agreement between the Cuban Government and the United Nations—are the representatives of some UN organs such as UNESCO or UNICEF, observers of intergovernmental organizations such as the OAU or the OAS, organizations such as the Social and Economic Council, experts in criminal activities and penal justice, university professors, criminology researchers, penal institution officials, and prosecutors or representatives of judges and lawyers associations. These are the kind of experts who usually participate.

[Hernandez] Comrade prosecutor, it is known that the United States will not participate with an official delegation. However, other U.S. experts, scientists, and researchers have expressed their wish to participate. Will they be able to do so?

[Cruz] U.S. experts and delegates will participate. They do not represent the government. I cannot remember their numbers at this time but they represent well-known organizations such as the International Association of Penal Law. This is a very prestigious organization. We know the association's president will be present. Representatives of other U.S. nongovernmental scientific organizations will also attend.

[Hernandez] Will any representative of an organization that has criticized our system be able to participate?

[Cruz] I cannot prevent any international organization that has criticized us from participating. Some organizations are greatly manipulated for political reasons, but they are not usually recognized by the United Nations. Other organizations might not agree with our political, economic, social or judicial system but we expect—we have participated in a few events like this one—the debate to maintain a scientific and professional level and to avoid political manipulations or [words indistinct]. We have attended many meetings with organizations that do not like us. They have always been respectful. They have never used the forum to attack Cuba or any other country. This is just not done in this type of meeting. Countries are not attacked. The issues are discussed from a scientific viewpoint. They are not used

for any political manipulation. This has been the ethical position of all the events in which we have participated. We expect the upcoming meeting in Havana to maintain the same level. [passage omitted]

[Resillez] Will the congress discuss what we can call international crime, for instance, the massive U.S. military presence in the Persian Gulf. Some listeners have called to say that the U.S. presence there is just as criminal as the U.S. invasion of Grenada or Panama. Other listeners want to know if the congress will discuss other international problems such as drug trafficking.

[Amaro] The agenda has been worked out by the committee for crime prevention and the fight against criminal activities. This is a permanent branch of the Social and Economic Council and it is responsible for organizing the event. The committee works for long periods—they meet every two years for eight days—to arrange the agenda. They consider previous recommendations, the new national and international situation, etc. The agenda is then distributed to all UN members.

The crisis in the Persian Gulf is being analyzed by the UN Security Council, as our people know. The Security Council has already met a few times to discuss this issue. In the first meeting it approved a resolution rejecting the Iraqi invasion of Kuwait. The other issues, such as the U.S. military presence, are being analyzed at this time. This concrete situation has to be analyzed as a matter of international security. I would not like to mention here the U.S. invasion of Panama, a real act of war, precisely because it is not on the congress' agenda, and we do not want to advance opinions that might be interpreted as political statements. We do not want to give anyone an excuse to politicize the event because, as the comrade attorney general said, the event is essentially technical. However, our people's feelings about this problem are very well known.

We do not exclude the possibility that a proposal might be presented to discuss this issue. However, such a proposal will be accepted only if the issue can be classified as criminal and if it can be discussed as part of the congress' agenda. This is our answer on that point.

It is also obvious that some of the topics that the congress will discuss have an international scope. This is the case of drug trafficking. There is a very important document that will be discussed during this congress. It is a model of an extradition treaty. This document is very interesting. It will be submitted to the international community for its consideration and it might establish uniform norms and regulation on the issue. The document, as all other documents under consideration, begin by expressing its unyielding respect for the principle of national sovereignty. It is a very interesting document.

The document discussing organized crime—we all know about this issue—will also be careful analyzed. We will hear the opinion and criteria of the international community on these issues. If we all work with the spirit of cooperation proposed in the documents, we can expect progress. I do not want to go into details, but I think that international cooperation with countries that do not participate cannot go beyond mere words. I do not know how they can expect honest and real international cooperation if they do not participate in a congress just because Cuba hosts it. [passage omitted]

[Puerto] I understand delegates will visit Cuban prisons. Is this part of the congress' agenda or is it a Cuban initiative?

[Cruz] It is a Cuban initiative. This is not established by any committee resolution. We think we must show our penal institutions. We think it will be interesting if our visitors can get acquainted with our prison system, how they operate, and how minors' detention centers operate. We will visit some penal institutions near Havana. All delegates will be invited to visit these institutions. It is not an obligation or a United Nations' requirement. [passage omitted]

* Domestic, Foreign Tourism Growth Detailed

90P40113B

[Editorial Report] The 24 July 1990 issue of the Havana Spanish-language newspaper TRABAJADORES reports on pages 1 and 5 that tourism is unaffected by the events taking place in the Czech and Slovakian and Spanish Embassies. Abraham Masiques, president of Cubanacan Corporation, stated that joint venture projects are on a contractual basis and will be completed.

The president of Intur [National Institute of Tourism], Rafael Sed Perez, stated that there are now 13,000 rooms available for Cuban and foreign tourists, and 100 camping areas which serve 1.2 million Cubans every year.

The Intur president went on to say that in 1989 320,000 tourists came to Cuba, an increase of 10 percent. Of the total number of foreign tourists who visit Cuba, 67 percent are from Canada, West Germany, Spain, Mexico, and Italy. He further stated that 60 percent of hotel occupancy is by Cubans and 40 percent by foreign tourists, while in nightclubs the ratio is 70 percent Cubans to 30 percent tourists, and restaurant clientele is 90 percent Cubans.

Sed Perez pointed out that at certain times of the year some hotels cater exclusively to foreign tourists, but on the average hotels for the most part serve domestic tourism.

* Fewer Work-Related Deaths Reported

90P40113A

[Editorial Report] The 30 July 1990 issue of the Havana Spanish-language newspaper TRABAJADORES reports on page 1 that the number of work-related deaths in the first half of the year was down by 26. There were 159 fatalities in this period, with Mitrans [Ministry of Transportation] reporting 13 fewer fatalities, Sime [Steelworking Industry] five less, and Minaz [Ministry of Sugar Industry] reporting three fewer deaths.

Dominican Republic

* Enslavement of Haitians Denounced

90CA0087A Santo Domingo EL NACIONAL DE [AHORA] in Spanish 8 Jul 90 p 16

[Article by Rafael P. Rodriguez]

[Text] Santiago—Father Ramon Ramos claims he can prove, to President Joaquin Balaguer or any international organization, that the country does not have just one or two cases of slavery, but hundreds.

Ramos said that if the president wants, he can do the work he thinks he is doing successfully.

For all Dominicans without exception, it is no secret that Haitians are totally enslaved from the time they cross the border until the day when, in desperation over their mistreatment, they finally leave, that is, if they are able to do so, Ramos adds.

He explains that the Haitians are often held and forced to work. President Balaguer claimed Thursday that the government is the target of a campaign of slander built upon the mistreatment of Haitians.

Ramos wondered how the president could make the claim that Haitians are well-treated in our country. "Nothing could be further from the truth," he said in a written statement.

He added that for years Haitians have been forced to endure one of the cruelest forms of slavery.

Ramos labeled Dr. Balaguer as "one of the great intellectuals of anti-Haitianism in the Dominican Republic which has been in power since the Trujillo era. It was during that period, in October 1937, that the great slaughter of Haitians occurred, when President Balabuer was over 30 years old."

"I believe the Catholic Church, as a reliable institution and defender of the oppressed, should, on behalf of those who lead it, contradict the false statements which people in government are making [for the benefit of] international public opinion," Ramos explained.

He added that it is not true that no Dominican, reformist or Balaguerist, would believe Haitians are not mistreated.

He called upon the Bishops Conference, the Dominican Clerical Conference, and all institutions familiar "with the sad condition of enslavement of our Haitian brothers to come out in defense of the oppressed."

Haiti

'Zenglendo' Attacks Leave Numerous Dead, Wounded

FL2108170190 Port-au-Prince Radio Soleil Network in Creole 1100 GMT 20 Aug 90

[Excerpt] At least six people died, and three others were wounded in attacks by zenglendos and counterattacks by the police yesterday, Sunday, [19 Aug] in the Port-au-Prince area. Four people were killed and three were wounded between 1100 and 1300 in an attack by Zenglendos. At the corner of Center Street and Pavee Street, a group of armed men opened fire on a group of moneychangers who were on the sidewalk in front of Shasa [a car dealership]. They killed three moneychangers and wounded two others, and stole all the money the moneychangers had on them. [passage omitted]

Trinidad and Tobago

Prime Minister Robinson Begins Visit to Barbados

FL2108231090 Bridgetown CANA in English 2223 GMT 21 Aug 90

[Text] Port of Spain, Trinidad, Aug 21, CANA—Trinidad and Tobago Prime Minister A.N.R. Robinson left here Tuesday for Barbados on the invitation of Governor General Dame Nita Barrow, a senior government minister said. Eyewitnesses in Barbados said they saw Robinson alight from a Defence Force helicopter at the Garrison Savanah just outside Bridgetown early Tuesday afternoon.

Industry Minister Dr. Bhoe Tewarie confirmed Robinson's afternoon departure to Barbados, where he is to remain a few days, resting and recuperating. Robinson left from Tobago where he went to recuperate after being held hostage for five days by members of the Jamaat-al-Muslimeen Islamic sect.

The prime minister, a diabetic, was released by his captors after almost being blinded by glaucoma and suffering from a gun shot wound on his right foot. He was also invited to Venezuela by President Carlos Andres Perez to rest before resuming his official duties, and government sources said he would likely accept.

Also out of the country is Minister of Justice and National Security Selwyn Richardson, who left for London last week Wednesday for medical treatment. Richardson was also shot on his leg by the Muslimeen while parliamentarians including Robinson were held hostage in the parliament building.

Finance Minister Selby Wilson, Health Minister Dr. Emanuel Hosein, Minister in the Prime Minister's Office Joseph Toney, and Minister in the Ministry of External Affairs Eden Shand are all abroad undergoing trauma treatment, a government source told CANA [CARIBBEAN NEWS AGENCY]. It is also expected that Rawle Raphael, the parliamentary secretary in the Industry Ministry, will leave for the United States shortly. The ministers and parliamentary secretary were held hostage for six days by the rebel Muslimeen before being released.

El Salvador

Reportage Covers Government, FMLN Negotiations

Delegates, UN Envoy Discuss Talks

PA2108234690 Panama City ACAN in Spanish 2206 GMT 21 Aug 90

[Text] San Jose, 21 August (ACAN - EFE)—Salvadoran Justice Minister Oscar Santamaria, head of the Salvadoran government delegation, which is engaged in peace negotiations with the Salvadoran guerrillas in Costa Rica, stated today that there is still no agreement on the military topic but that 60 percent of the proposals are being "discussed."

For his part, UN mediator Alvaro de Soto reiterated that "more than half" of the proposals have been discussed and that the "difficult" aspect of "military impunity" may be one in which there may be "rapprochement."

De Soto reiterated that the discussion has "substantially intensified" and that he does not dismiss the possibility that an agreement may be signed, although he said that if one is not signed it does not mean the negotiations have failed.

Colonel Mauricio Vargas, member of the Salvadoran official delegation, told reporters that "we are engaged in the discussion," but he did not say what aspects of the proposals are being discussed.

Vargas noted that the talks were going "well," although a partial agreement on the military topic is not envisioned.

Sources close to the negotiating table told ACAN-EFE that the topic of "military impunity" has taken up the major part of the discussions.

De Soto dismissed the importance of the military activities in El Salvador, noting that such circumstances will not prevent the dialogue from continuing "unaltered."

Meanwhile, Salvadoran Justice Minister Oscar Santamaria stated at a news conference that "the need to introduce some variations into the positions of the two sides is in evidence."

He said further that the positions of the two sides are being reviewed "to proceed toward formulating a general framework on the topic of the Armed Forces and possible common denominators and points of agreement."

He admitted, however, that there are aspects in which the positions are "quite different," and they will require "great effort and variations from the original positions held by the two sides before political agreements can be reached."

Santamaria condemned last night's attacks by the Farabundo Marti National Liberation Front (FMLN) in several parts of the country, which, he said, resulted in several dead and wounded among the civilian population. He accused the guerrillas of a "lack of coherence," while Col. Vargas argued that the government's military offensives cannot be compared with the FMLN's attacks because the latter harm the civilian population.

The round of talks in Costa Rica, which began last Friday under UN mediation, is scheduled to end tomorrow.

FMLN Proposal To Dismantle Military

PA2108123690 (Clandestine) Radio Venceremos in Spanish to El Salvador 0200 GMT 20 Aug 90

[Text] As has already been announced in San Jose, Costa Rica, the Farabundo Marti National Liberation Front [FMLN] has issued a proposal to dismantle militarism, achieve a cease-fire, and progress toward democracy without weapons.

On 30 April, the FMLN took to Caracas, Venezuela a global proposal that consisted of three basic points—demilitarization, democratization, and a socioeconomic pact. In this proposal the FMLN called for demilitarization by putting an end to the military's impunity, purging the Armed Forces, dissolving the security corps, reducing the size of the Armed Forces, subordinating them to civilian authority, professionalizing them and changing their mentality, dismantling paramilitary forces, and the total demilitarization or elimination of the Armed Forces.

This document contains 18 points that are prerequsite to a cease-fire:

1. A pledge to totally demilitarize society through a process whereby both armies will be eliminated;

2. The suspension of all forms of obligatory or forced recruitment—the two armies' recruitments must be voluntary;

3. The disarmament and total dissolution of the territorial service civil defense forces and paramilitary patrols;

4. A total purging of all of the generals and colonels who are currently enlisted and the chiefs and officers involved in human rights violations and corruption;

5. The dissolution of the Atlacatl Battalion, with the discharge of all the officers and troops who have been members of the battalion since its inception;

6. The public dismantling and destruction of clandestine jails and all the Armed Forces' instruments of torture;

7. The dissolution of the death squads, starting with the dismantling of the personal security apparatus operating in private businesses, autonomous institutions, and government offices, and especially those directed by Major Robert d'Aubuisson and Mr. Orlando de Sola;

8. The dissolution of the death squads, beginning with the dismantling of the National Intelligence Department and all of its organizations, as well as the Armed Forces' brigade and detachment intelligence structures;.

9. The dissolution of the infantry battalions and security corps, and the discharging of all of their members;

10. The total dissolution of the National Guard and Treasury Police, and the discharging of all who were members of these forces since 1979;

11. The establishment of a joint Armed Forces and FMLN commission to agree on and implement the terms and formation of a new civilian police;

12. During the transition period for the formation of the new police, the current National Police would operate under the following measures:

—The dissolution of its secret organizations and special services;

—The purging of the officers and troops involved in human rights violations and corruption;

—The intervention of all of their headquarters by human rights verification organizations;

13. To put on trial and mete out exemplary punishment to the masterminds and perpetrators of the following crimes and massacres before agreeing on the cease-fire:

1. The murder of Msgr. Romero, archbishop of San Salvador;

2. The massacre of Fenastras [Salvadoran Workers National Union Federation] labor leaders;

3. The murder of Hector Oqueli Colindres and Hilda Florez in Guatemala;

4. The massacre of the six Jesuit priests and their two maids;

5. The massacre of 900 peasants in Mozote, Guacamaya, Los Doriles, and other hamlets in Morazan Department;

6. The massacre of 600 peasants on the shores of Rio Sumpul in Chalatenango Department in central El Salvador;

Added to these six cases are the murders, massacres, and bombing of civilians that take place during the course of the negotiations;

14. To begin trials against the masterminds and perpetrators of all the murders, massacres, and forced disappearances carried out since 1969, including actions by prominent members of the private sector and paramilitary groups linked to them, such as:

Seven thousand disappearances and thousands of murders by the death squads since 1979; the murder of Priests Rutilio Grande, Navarro Oviedo, Alirio Napoleon Macias, and Octavio Ortiz; the murder of four American nuns; the murder of Enrique Alvarez Cordoba, president of the FDR [Revolutionary Democratic Front] and the group's other leaders; the murder of the two American civilian advisers and Rodolfo Viera of the Salvadoran Institute of Agrarian Transformation; the murder of Mario Zamora Rivas and Melvin Orellana; the murder of a REUTER reporter by the Salvadoran Air Force; and the murder of a Canal Doce sound technician by the Arce Battalion; the annulment of acquittals that have already been dictated; the murder of four Dutch reporters; the murder of Marianela Garcia (?Villes) and Herber Anaya Sanabria, president and coordinator of the Human Rights Commission; the murder of Swiss citizen Jurgen Weitz, a member of the European Parliament in Anastepeque, Cuscatlan Department; the murder of local and international doctors, paramedics, and war-disabled in assault operations against FMLN hospitals; the murder of rector Felix Ulloa and faculty and students since 1975; the murder of over 300 teachers; the murder of Colonel Benjamin Mejia and Captain Amilcar Molina Panameno; the massacre of 200 peasants in Copapayo, Cuscatlan Department; the massacre of 300 peasants in El Calabozo, San Vicente Department; the massacre of 10 peasants in San Francisco, San Sebastian, San Vicente Department; the annulment of the acquittals for soldiers; the massacre of 400 peasants in Las Hojas, Sonsonate Department; al actions and military operations to repress demonstrations, strikes, and peaceful occupations of lands, factories, or work centers since 1979; all the people killed or wounded by air and artillery bombings against civilians since 1979, including the cases that took place during the offensive in 1989 in San Salvador, San Miguel, and other cities;

15. The formation of a court to take to trial and punish all of the cases of impunity and war crimes perpetrated by the Armed Forces and paramilitary groups that would overcome the ineptitude and moral quality of the current judicial system and existing legal order, which must be given special powers to establish procedures and punishment, and the formation of which must be the result of a consensus among the political forces, government, and the FMLN;

16. The suppression of the current deputy minister of public security;

17. The designation of civilians to the posts of minister and deputy minister of defense, accepted by consensus by all the political forces, government, and the FMLN;

18. The preparation and approval of a special economic plan that would serve as a guarantee for all who are affected by the process of demilitarization and the disappearance of the two Armies.

Without the trial of all who are guilty for all of these cases of genocide, which has claimed over 50,000 victims who were murdered individually or en masse through the simplest to the most abominable and aberrant forms of murder, who include common citizens, men and women from all of the cities, including the elderly to the newly born, peasants, laborers, teachers, students, doctors, war-disabled, and foreign citizens from a diversity of occupations, including several Americans from human rights organizations, reporters,

priests, nuns, Army officers, prominent peasants, and even a bishop, the negotiations will not be considered to have concluded.

The FMLN's demands for dismantling militarism, including a cease-fire and progress toward democracy without weapons, includes the following points:

1. In our country there are two Armies at war. The Geneva Protocol—which was signed in the presence of the UN secretary general—the war's physical dimensions, and its consequent national and international pact prove this reality. Negotiation is the most reasonable and fair path to resolving the conflict, and its result cannot be one Army's prevalence over the other. This would be a denial of the negotiation. Due to the political-military correlation that exists, the negotiation should be designed to resolve the political, economic, and social causes of the war.

2. The Armed Forces issue is the foundation of the negotiation. Without an agreement concerning the Armed Forces, agreements concerning other issues are not guaranteed, making a cease-fire agreement impossible.

3. The country's total demilitarization is based upon the elimination of the current Armed Forces. For this it would be necessary to carry out constitutional reforms that ensure a demilitarized state. This is the primary guarantee for achieving real democracy and the state's effective modernization, which would allow military spending to be transferred to the social sector for the creation of a modern and efficient legal system, to strengthen truly pluralist and much broader parliamentary power, and maintain modern and professional civilian public security entities.

4. The FMLN accepts the abolition of the two armies through a gradual, symmetrical, and simultaneous process, by means of establishment of a new civilian public security institution. To that effect, a timetable of simultaneous steps would be proposed for both armies, based on the military equivalence of both sides rather than on a numeric count.

5. Impunity is innate in the Armed Forces. It operates on a system of concealment that is sanctioned from the top command to the enlisted men. To undo this situation constitutes the essential base to reach a cease-fire and national reconciliation. Punishing crimes and mass murders represents a basically political matter, since these acts were perpetrated directly or indirectly in line with the the decisions of a plan of war. Placing a judicial or police emphasis on finding or attributing responsibilities is a way to evade justice and preserve impunity. The Armed Forces must identify those who gave the orders, implemented them, and acted them out.

6. The Armed Forces are one of the chief causes of the conflict. The problem is not to reduce their size, since 10 years ago they were much smaller and commanded a direct and open dictatorship. Hence, the solution is to end militarism and abolish the Army, because it has been repressive and generated wars, and because it has been a seat of corruption and abuse of power. It is useless and unproductive, and at this point, an obsolete and unnecessary political, economic, and social element.

Our sovereignty is not at risk in Central America, where a process of demilitarization exists. Along other lines, the alleged danger of Soviet expansionism no longer exists. Nothing justifies an armed state, other than a direct, indirect, or potential dictatorial ambition.

[Signed] FMLN General Command: Commanders Eduardo Sancho, Francisco Jovel, Salvador Sanchez Ceren, Jorge Shafik Handal, and Joaquin Villalobos

[Dated] 17 August 1990

Larios Calls FMLN Demand 'Setback'

PA2208003090 San Salvador LA PRENSA GRAFICA in Spanish 21 Aug 90 p 38

[Text] Salvadoran Defense Minister General Rafael Humberto Larios stated yesterday that the FMLN [Farabundo Marti National Liberation Front] demand proposing that the Army be abolished constitutes a "total setback" to the dialogue-negotiation peace process.

He termed the FMLN's new position as radical and "contradictory," noting that it basically and substantially modifies all the work that has been accomplished in the negotiation process.

Larios was interviewed at the Supreme Court during a symbolic ceremony at which the Army High Command and President Cristiani expressed their support to the judicial authorities to handle the case of the Jesuit priests expeditiously and clearly, the military officer stated.

To prevent what might be a new impasse in the dialogue due to the new FMLN proposal, Gen. Larios mentioned the mediation of Dr. Alvaro de Soto, whose performance "will have to be more intense and seek points of greater agreement in the discussion of this topic," he stated.

"We hope that there will be sufficient willingness in the talks to handle this new FMLN proposal adequately," he said.

Larios reiterated the contradiction of the new FMLN proposal and said that the document does not represent positions "that are serious or negotiable" so as to reach a short or mid-term agreement and then secure real peace agreements.

He recalled the Army's willingness to reduce the number of its troops as long as the reasons that caused the growth of the institution disappear. He added that this reduction will have to be clearly and carefully considered.

In general, he described the new FMLN proposal as "an extreme and radical proposal that seeks to hinder the dialogue process."

He voiced the hope that "the FMLN's radical position will be modified in order to discuss real possibilities of opening up peace possibilities for our people," he said.

He did not rule out the possibility that the FMLN's radical position will seek to launch a new offensive. He recalled the "offensive" last 11 November, saying that the possibility of a similar one "would not be rare or remote."

Finally, he said that the Armed Forces and government have presented a "clear and serious" position at the negotiating table and that in view of the radical and extreme position of the FMLN, possibilities are being exhausted. We believe, he said, that the radical FMLN position is not conducive to finding a solution, but that points of agreement must be found.

Cease-Fire Agreement May Be Signed

PA2208030490 Mexico City NOTIMEX in Spanish 0144 GMT 22 Aug 90

[Text] San Jose, 21 Aug (NOTIMEX)—The Salvadoran Government and the guerrillas will sign an agreeement to decree a unilateral cease-fire beginning on 15 September and to immediately establish an international commission to verify respect for human rights.

Delegates attending the peace talks being held in San Jose today told NOTIMEX that details on such an agreement could be released tomorrow, when the fourth round of talks will conclude.

According to the report, it is expected that with the mediation of UN Representative Alvaro De Soto, the Salvadoran Government and the guerrillas would make a commitment to have a unilateral cessation of hostilities with deadlines that can be extented until political agreements have been reached to end the conflict.

The commitment to cease military operations would be signed on 1 September and would be in effect on 15 September, which is the deadline set on the agenda the two delegations drafted in Caracas.

The UN Group of Observers would simultaneously begin operations to supervise respect for human rights by the Army and rebel groups thoroughout the country.

The FMLN has rejected the proposal to reach an agreement on a cease-fire as long as the causes that generated the armed conflict—such as repression by members of the the Army and their impunity—prevail. The FMLN is also demanding the dismantling of all security corps, the intelligence apparatus, and the death squads.

Only a partial agreement supporting human rights has been signed after four rounds of talks, but there has been no concurrence on the controversial subject of the Armed Forces.

Other points on the agenda that have not been discussed yet are amendments to the Constitution, the electoral and judicial systems, as well as socioeconomic reform.

The cease-fire plan permitting the extension of deadlines would be similar to the one implemented in Nicaragua through the Sapoa Agreements between the Sandinist government and the contras, the diplomat said.

This would guarantee the minimum conditions necessary for the international human rights mission to begin operating "on site" in accordance with the urgency of the Salvadoran social forces.

The government mission headed by Justice Minister Oscar Santamaria has insisted at all the meetings that the armed conflict should end as soon as possible and that negotiations with the FMLN should continue.

Commander Ferman Cienfuegos, one of the leaders in the guerrilla delegation, was skeptical about unilateral cease-fires, which he said "are very difficult to verify" in El Salvador because of its size and problems in delimiting territories for both sides involved in the conflict.

Deputy Defense Minister on Attacks

PA2208011190 San Salvador Radio Cadena YSU in Spanish 1730 GMT 21 Aug 90

[Report by Julio Ernesto Rodriguez]

[Text] Colonel Orlando Cepeda, Salvadoran deputy defense minister, has described the armed actions carried out by FMLN [Farabundo Marti National Liberation Front] urban commando units last night as acts of arrogance and terrorism.

The military chief said that despite the guerrilla actions, the Armed Forces are willing to continue at the negotiating table in San Jose, Costa Rica.

According to Col. Cepeda, the rebels are using the dialogue process as an instrument to reach power. The military chief also said that a military solution would not resolve the war, which has resulted in about 75,000 casualties, including civilians, soldiers, and guerrillas. Cepeda also said that the FMLN is trying to show off its military strength, but that implementation of another guerrilla offensive would not contribute toward a solution and the FMLN would pay a high cost.

In response to statements by the rebels, who contend that the Armed Forces have been conducting offensive operations to destabilize guerrilla units, Cepeda said that the Army is implementing defensive actions.

[Begin recording] [Cepeda] Last night's acts of terrorism are nothing more than acts of arrogance and acts of degenerate terrorism because they did not have any precise objective. Only the civilian population was affected. You may have seen that not a single member of the Army was wounded, only the civilian population was affected. This shows [changes thought]... and let the people judge who is really interested in peace. Is it the Armed Forces, the government, or the FMLN? Following last night's actions, the FMLN deserves the general rejection of the entire population.

[Reporter] [Question indistinct]?

[Cepeda] We are always waiting for an agreement and we hope the FMLN leaders [five-second break in reception-]...with these acts and we hope an agreement can be reached. They should stop the violence. There is no reason for the violence.

[Reporter] [Question indistinct]?

[Cepeda] The Armed Forces will continue to participate at the negotiating table, and we have to force the FMLN to continue at the negotiating table.

[Reporter] Do you think these acts reflect a lack of commitment to dialogue?

[Cepeda] They are showing a lack of commitment and I do not know and do not understand what they are trying to do. There is no reason for any offensive at this time. It would be very costly for the FMLN. There is no more room for war and violence. The best thing they can do is sit down and talk about ways to achieve peace in this country.

[Reporter] How costly would it be for the FMLN?

[Cepeda] It would be the end of the FMLN. An offensive at this stage of the game is not advisable for them, let alone for the Salvadoran people, because they want to use weapons and violence to achieve power. The FMLN is showing that the dialogue is not being used as a means to find peace, but as a recourse or another road in their strategy to achieve power. What we have to do through dialogue and the peace talks is to discredit the option of violence and an armed struggle. However, by carrying out these actions, they are demonstrating their real intentions. They want to show that they are still strong. Throughout the years, the mission of the Armed Forces has been to protect the Salvadoran people and the properties of the Salvadoran people. They cannot say that we are launching an offensive. Our actions are defensive. We are a legal institution, authorized by the people themselves. We are simply defending the people. We cannot allow others to kill people, to destroy our institutions, and to undermine our nationality solely for the interests of a group of unstable terrorists. [end recording]

Responding to another question posed during the news conference, Col. Cepeda assigned little importance to statements made by Captain Francisco Emilio Mena Sandoval, who joined the FMLN ranks a few years ago. According to the deputy defense minister, the statements are intended to discredit Colonel Mauricio Ernesto Vargas before the government's dialogue commission. They are trying to [word indistinct] the fatherland and the Army, and they want to infuriate an Army chief, who took the military oath. The colonel refused to explain his position with regard to the dialogue meeting that is being held in San Jose, Costa Rica. He described the rebel position as radical, and he accused the FMLN of wanting to obstruct the negotiations.

[Begin Cepeda recording] They want to discredit a military officer, who currently represents the interests of an institution, a member of a delegation that the government itself has chosen. I believe there are no real grounds to accuse him. That is a strategy to discredit him and to infuriate a valuable official who is defending the country. I do not believe there is any reason for this. As for the person who is making the accusations, I believe he is a traitor of the fatherland. There have been charges filed against him. I believe he has already been sentenced for the murder of his superior in Santa Ana. Charges have been filed against him there. I believe the people will have to condemn his morals, because how can a traitor to the fatherland now say he has come to defend the people? The man deserted the Armed Forces, and I believe that is their strategy to discredit Col. Vargas. I believe and I hope an agreement can be reached, even though the positions of the FMLN were too radical at the start of the talks. Newspapers have published a series of pointless demands by the FMLN. The FMLN is trying to extend and to obstruct the process, especially because we were about to reach an agreement. An agreement on human rights has already been signed, and it was violated in last night's attacks against the civilian population. [end recording]

Cepeda stated that he does not want to be pessimistic of the results of the dialogue, which are scheduled to end tomorrow, and he said that specific agreements are expected, but some skepticism was observed in his statements. According to the FMLN, the Armed Forces issue, one of the most controversial issues, should be discussed in depth. Otherwise, peace would not be achieved and the military would retain real power.

Merino Says Government Ready To Counter FMLN

PA2208014790 San Salvador EL DIARIO DE HOY in Spanish 20 Aug p 10

[Text] Santa Ana—While the peace talks between the government's official delegation and the subversive groups seems to have reached a deadlock in Costa Rica, here the government has said that "it is prepared to counter any FMLN [Farabundo Marti National Liberation Front] attack that results from an impasse in the negotiations."

Unofficial sources have reported from Costa Rica that the meeting in San Jose entered its third day virtually at a standstill on the subject of the Armed Forces.

"We are ready to counter any FMLN attack," Vice President Francisco Merino said in this Salvadoran western city after inaugurating the Western Textile Industrial Factory (Intexo).

Intexo will hire 1,500 permanent employees. It will manufacture clothes for export under the Caribbean Basin Plan 807, which will bring foreign exchange into the country.

Jorge Shafik Handal, one of the terrorist leaders, said in San Jose yesterday that "no specific advancements have yet been made with regard to the reorganization of the Army; therefore, the talks have reached a deadlock on the subject."

Jorge Shafik Handal, a veteran commander of the terrorist groups, said that "although the talks are at a stalemate at the moment, we are optimistic that some kind of agreement will be signed that could lead to a cease-fire."

The terrorists proposed in San Jose that the 54,000-man Army must be reorganized, purged, and reduced in size, as a condition for signing any agreement to put an end to the hostilities in the subversive war, which according to the Armed Forces has claimed 34,000 lives over the past 10 years.

During previous talks, the FMLN threatened to launch another offensive should no agreement be reached, particularly on that subject. Last November, terrorist groups launched a bloody attack on the capital and major Salvadoran cities, which left thousands of dead among rebels, soldiers, and civilians.

Vice President Merino recalled that the Armed Forces are an institution inherent in any civilized society. "Some errors can be corrected; however, it is inconceivable that a terrorist 'commander' who is constantly causing death, pain, and terror among the people should demand the removal of specific members of the Army," he stressed.

"The members of the FMLN are criminals. If they stopped causing destruction it would not be necessary to maintain or increase the number of soldiers," Merino noted.

Merino recalled that the government has given members of the FMLN the necessary guarantees and opportunities to join the democratic system.

In San Jose, Salvadoran Justice Minister Oscar Santamaria, who heads the government delegation, said that the focus of the talks had narrowed to the subject of the Army.

"We have begun discussing the subject of the Armed Forces; however, each side has just presented its views concerning the matter," Santamaria said shortly before the third round of negotiations that will conclude on 22 August got started.

"The FMLN [Farabundo Marti National Liberation Front] proposal of abolishing the Army is absurd because a military institution is inherent to any sovereign state, be it rightist, leftist, or communist," Vice President Merino said regarding the proposal.

After three days of talks at a hotel in the San Antonio de Belen beach resort, located 15 km from San Jose, Costa Rica, on 19 August the peace talks between the government and terrorist delegations were centered on possible changes within the Armed Forces. However, both sides seemed more distant than ever.

The terrorists continued making more demands contained in a new 18-point platform, and finally demanded the total abolition of the Salvadoran Army.

The rebels' new position is more extremist than their previous ones, in which they only demanded a reduction of the Armed Forces and the retirement of hundreds of officers and top commanders. They also demanded that the members of the Army be banned from managing state-run public service enterprises.

"The Armed Forces are a necessary institution, created to protect our citizens and territory. Therefore, it is not a point to be negotiated at any time," Merino stressed in an interview broadcast by television in San Salvador.

Merino added that before the current round of talks, the FMLN circulated a document in which the group demanded the elimination of the Armed Forces, which it had never publicly said before.

Merino stated that despite some problems that emerged at the beginning of the talks, the meeting had stabilized and on 19 August the negotiations between the government and terrorist delegations lasted nine hours. He said that it was a very difficult session.

He added that the government will propose to the guerrilla representatives that the negotiations be held more frequently to expedite the Salvadoran peace process.

The important thing is that the delegations have proceeded to discuss the subtopics, and that on 19 August two of those points were discussed, which include the purging of the Army and putting an end to impunity within the Army.

Vice President Calls for More Frequent Talks

PA2208021290 San Salvador EL DIARIO DE HOY in Spanish 21 Aug 90 p 2

[Text] The government has termed the rebels' proposal of dissolving the Army "absurd," and has announced that it will ask the terrorist groups to hold more frequent talks in order to expedite the Salvadoran peace process.

FMLN Denies One Killed in El Zapote Attack

PA2208030990 Mexico City NOTIMEX in Spanish 0151 GMT 22 Aug 90

[Text] Mexico City, 21 Aug (NOTIMEX)—The Salvadoran guerrillas have denied that a person was killed in yesterday's artillery attack carried out by rebel urban commando units against the Armed Forces Telecommunications Instruction Center (CITFA).

The Farabundo Marti National Liberation Front (FMLN) denied the report issued by the Press Committee of the Armed Forces (Coprefa), which said that a

person was killed when the guerrillas launched an attack against the "El Zapote" barracks in front of the Presidential Palace.

According to a communique released in Mexico, the FMLN admitted that the attack on the CITFA "constitutes a serious mistake in operational procedures," and it ordered its commandos to avoid taking measures that may adversely affect the civilian population.

The FMLN regretted that four people were wounded following the operation carried out by the rebel urban commando units against the CITFA in southern San Salvador.

FMLN Says No Agreement To Emerge From Talks

PA2208034690 Panama City ACAN in Spanish 0241 GMT 22 Aug 90

[Text] San Jose, 21 Aug (ACAN-EFE)—The negotiations between the Salvadoran Government and the guerrillas, which are taking place in Costa Rica, will conclude tomorrow without any agreement being reached on the Armed Forces, the Farabundo Marti National Liberation Front (FMLN) reported tonight.

Salvador Samayoa, member of the rebel delegation that since Friday has been meeting with a Salvadoran Government delegation, flatly stated that "there is no agreement on the Armed Forces," adding that another point of the agenda will not be broached, as the delegation of President Alfredo Cristiani wanted.

Salvadoran Justice Minister Oscar Santamaria had said shortly before that 60 percent of the proposals on the military aspect of the warlike conflict, which has been under way for more than a decade, had been discussed.

Samayoa said that tomorrow, the last day of the talks, only minor aspects of the talks will be discussed. They will be part of a bilateral discussion with UN Mediator Alvaro de Soto, who a few hours earlier said "he has hopes" that some agreement will be reached on the matter of the Armed Forces.

Aspects of the impunity and purge were the principal cause of the impasse in the talks.

Nonetheless, Samayoa said that the dialogue was not "futile."

Meanwhile, the FMLN denied that last night's attack against a military installation in San Salvador had caused the death of a child, as Minister Santamaria alleged.

It is anticipated that the dialogue will conclude at approximately noon tomorrow. It was unofficially stated that the next round of talks would also be held in San Jose in three weeks.

Church Says Stance Result of Internal Problems

PA2208042390 San Salvador DIARIO LATINO in Spanish 20 Aug 90 p 6

[Text] Monsignor Gregorio Rosa Chavez, auxiliary bishop of San Salvador, said yesterday that the positions of the Armed Forces and the FMLN [Farabundo Marti National Liberation Front] at the dialogue have hardened and that their demands and positions are increasing the feelings of pessimism and defeatism about the real possibilities of achieving peace.

"This has especially been the case regarding the military issue, which is what the government and FMLN delegations are currently discussing in San Jose, Costa Rica," he said.

The bishop said that among the positions there are those that refer "to the attitude of certain groups within the Armed Forces regarding the investigation of the Jesuit priests' murder case. In addition, the guerrillas' demands to sign a cease-fire do not make anything easier."

In view of this situation, he added, we may ask the distressing question: What type of military agreement can we expect from the San Jose dialogue?

According to the bishop, the FMLN position may be a result of internal problems. They may be trying to gain time to resolve differences among the five organizations and at the same time generate a crisis in the Armed Forces. Meanwhile, the government also needs time to reconsider some proposals.

He also noted that contributing solutions to problems is more important than pointing out problems and obstacles, and that is why the archbishop presented the church's position on impunity to the UN representative.

Armed Forces Report Recent Guerrilla Attacks

PA2208042690 Mexico City NOTIMEX in Spanish 2241 GMT 21 Aug 90

[Text] San Salvador, 21 Aug (NOTIMEX)—Official sources have reported that the bloody clashes between the Salvadoran Army and guerrillas over the past few hours have left five dead and 18 wounded, including soldiers, rebels, and civilians.

The Army Press Office said that five civilians were wounded as a result of an attack launched by guerrilla urban commandoes at 1850 [0050 GMT] yesterday against a military garrison and the Presidential Palace, south of the Salvadoran capital.

According to the report, the action was perpetrated with M-79 grenade launchers and explosives, some of which landed in several private homes located in the Minerva, Costa Rica, and America neighborhoods in the nearby areas.

Simultaneously, the rebels carried out acts of sabotage against the electrical system, blowing up three utility poles, which temporarily left a sector of the metropolitan area without electricity.

In a communique issued today, the Salvadoran Government described the action as "a heinous indiscriminate attack," and deplored the fact that it occurred as the government and the guerrillas are meeting in Costa Rica to try to find a peaceful solution to the conflict.

In addition, at 0010 [0610 GMT] guerrilla columns attacked the town of Jucuapa, located 110 km from San Salvador, where they clashed with members of the National Guard and the 6th Infantry Brigade's "Oromontique" Battalion for more than eight hours.

Colonel Luis Gutierrez, national guard commander in the Eastern Zone confirmed to NOTIMEX that a rebel and a soldier were killed and six other national guard soldiers were wounded.

He termed the attack "a propaganda action by the FMLN [Farabundo Marti National Liberation Front]." He added that "the Armed Forces are ready to face any rebel attacks."

An Armed Forces report says that Air Force planes and helicopter gunships were providing support to military positions in the area from 0100 [0700 GMT].

In addition, FMLN troops today at 0700 [1300 GMT] attacked military positions in Suchitoto, Cuscatlan Department. The attack lasted about an hour, but no one was killed or wounded. Area residents reported that an Air Force plane overflew the sector trying to locate the rebel positions.

Meanwhile, two students from the Police Instruction Center were killed and three others were wounded when rebels ambushed the private vehicle in which they were traveling.

Another civilian was killed today when the vehicle in which he was traveling hit a bomb set off by the FMLN along a road in Chinameca, San Miguel Department.

Honduras

University Suspends Classes Following Disturbances

PA2208022490 Hamburg DPA in Spanish 0037 GMT 22 Aug 90

[Text] Tegucigalpa, 21 Aug (DPA)—The president's office of the National Autonomous University of Honduras today suspended academic activities following three days of violence among right-wing student factions. The clashes among militants of a right-wing political group began on 18 August with the burning of propaganda calling for the election of the Executive Committee of the Honduran Federation of University Students.

This morning, while students were attending classes and participating in the elections, all activities came to a halt when some students came armed with machine guns and pistols and fired into the air. In the clashes carried out by factions of the United Front of Democratic University Students (FUUD), at least three students were beaten with clubs and stones, despite the presence of dozens of soldiers surrounding the university.

University President Jorge Omar Casco, supporter of one of a student faction that promotes his re-election, accused the followers of Law Faculty Dean Rigoberto Chang Castillo of trying to spread "terror" at the university. Chang Castillo and Casco are vying for the post of university president and split FUUD to achieve their goal, according to leaders of one of the factions.

University President Casco rushed to temporarily suspend academic and administrative activities this afternoon, and asked top university authorities to come to the campus to expel those he termed university "gunmen."

* Coffee Exports Total 1.9 Million Bags

90CA0094B Tegucigalpa EL HERALDO in Spanish 11 Jul 90 p 40

[Text] Honduras has earned 401 million lempiras in foreign exchange from coffee exports. About 1.9 million bags of coffee, each weighing an average of 46 kilograms, were exported. Areas planted with coffee will be increased substantially during the next three years, according to officials of the Honduran Coffee Institute [IHCAFE].

According to data provided by Enrique Duron Avilez, general manager of IHCAFE, and Rolando Aguero Neda, deputy manager of the organization, during the 1989-1990 harvest 2.3 million bags of coffee have been sold (of which 1.9 million bags were exported).

Of the coffee produced during the 1989-1990 harvest season alone, 357,000 bags, whose delivery is pending, are awaiting export during the period from July to September 1990. This coffee will generate foreign exchange worth $29 million (or 121 million lempiras at the rate of 4.20 lempiras to US$1.00).

The total value of the present coffee harvest will be about 621 million lempiras, from which the state will earn 50 million lempiras from the tax on coffee exports.

At present there are 214,000 blocks of land planted with coffee which are in full production, while 31,500 blocks of land have recently been planted and the coffee bushes are growing. Within two years they will begin to produce. At present the average harvest for each block planted with coffee is 12.44 quintals. It is hoped that total coffee production by the end of the present harvest will be 2.6 million bags.

Projections of the harvest of 1990-1991 indicate that 220,000 blocks of land will be in full production, with an

average production of 13.05 bags of coffee per block and an overall production of 2.8 million quintals.

During the 1992-1993 harvest the number of blocks of land planted with coffee will rise to 297,500, of which 249,000 will be in full production. It is expected that 16.5 quintals of coffee will be produced per block, for an overall production of 4.7 million bags of coffee.

In 1990 the average price for a bag of coffee from the present harvest is $70, and it is expected that this will increase to $90. Duron Avilez indicated during a recent meeting of the International Coffee Organization that the Brazilian delegate had commented that the possibility of readopting the system of quota sales should be reviewed. This resulted in an immediate increase from $83 to $89.50 per bag on the international market.

The managing director of IHCAFE stated that 100,000 additional blocks of land will be planted with coffee while the present administration is in office. This will raise the area planted with coffee to 343,000 blocks, of which 248,900 will be in full production.

Finally, it was reported that a new coffee policy has just been developed along the lines determined by President Rafael Leonardo Callejas. This new policy will involve the introduction of new technologies, an improvement in the type of coffee, improvements in infrastructure, including roads leading to presently inaccesible areas as well as an adequate credit policy.

* Republic of Taiwan Grants $10 Million Loan

90CA0094A San Pedro Sula TIEMPO in Spanish 11 Jul 90 p 4

[Text] On 10 July the governments of Honduras and the Republic of Taiwan signed an agreement providing for a $10 million loan to be used for Honduran trade requirements. This was stated on 10 July at the Presidential Mansion.

Attending the signing ceremony were President Rafael L. Callejas, Ricardo Maduro, president of the Central Bank, and Chuang Li-huang, ambassador of the Republic of Taiwan to Honduras.

An announcement read by Ricardo Maduro stated that, "the trade requirements of the government of the Republic of Honduras will be financed by this loan. It will provide help for the activities covered in the economic program announced in March 1990 (the so called large package of measures).

Maduro said that this loan will provide vital support to the economy of Honduras and will be a further step in the recovery of the international financial credibility of Honduras which the government of President Callejas is seeking.

The ambassador of the Republic of Taiwan announced that his government recently agreed to extend another loan to Honduras, also for $10 million, which is now in the negotiating stages.

These loans will be repaid over a period of 10 years.

Nicaragua

Godoy's Post in UNO Political Council Abolished

PA2108202190 Panama City ACAN in Spanish 1911 GMT 21 Aug 90

[Text] Managua, 21 Aug (ACAN-EFE)—The Political Council of the UNO [National Opposition Union] has eliminated the post of President of the Political Council, which Vice President Virgilio Godoy had been holding since January.

Agustin Jarquin, President of the National Democratic Confidence Party, told EFE today that the majority of the 14 parties that form UNO decided last night to eliminate the post as a result of a document they had been debating for over one month.

Jarquin denied that Godoy had lost the presidency of the Council because of a "maneuver" by the heads of the 14 UNO parties, as had been "maliciously" reported by the Sandinist newspaper BARRICADA in Managua.

According to Jarquin, the document stipulating the elimination of the post was approved in order to improve relations between the UNO and President Violeta Chamorro's government and to "to make more efficient" the parliamentary tasks of the UNO deputies.

The document also seeks to "bolster" the fulfillment of President Chamorro's "national salvation" program and to find new ways to adopt decisions within the Political Council.

In the future, the Political Council, instead of having a President, will have a "rotating coordinator" every two weeks and a legislative coordinator every month.

Liberals Denounce Campaign Against Godoy

PA2208044690 Managua Domestic Service in Spanish 1930 GMT 17 Aug 90

[Text] Liberal Unity [Unidad Liberal] has issued a communique condemning a systematic campaign orchestrated by the FSLN [Sandinist National Liberation Front] against Vice President Virgilio Godoy.

Here are remarks by liberal leaders Andres Zuniga Mercado and Mario Montenegro, who charged that this sinister FSLN plot may even imperil Dr. Godoy's life. They call on all liberals to close ranks against the FSLN's constant and irresponsible lies.

[Begin Zuniga recording] We must recall that for several months now the three liberal parties, namely the Liberal

Constitutionalist Party, Independent Liberal Party [PLI], and Liberal Party of Nicaragua, have been meeting to reach an understanding because liberals need to achieve unity. Because PLI President Godoy is the target of constant attacks, and chiefly because he was elected by the people as vice president, the three parties felt there was a systematic and relentless campaign against Godoy.

We must recall he was elected by the people. The written and voice media began this campaign. They plan to hold Godoy responsible for everything that has happened. These media have gone so far as to accuse Godoy of starting the past strike to stage a coup. There have been a number of cases of slander. As liberals, we feel we must be responsible and support Godoy. This is not a pro-Godoy faction, as the three newspapers stated. We want to establish democracy. We believe we must respect not only Godoy's person, but also the position to which he was elected.

To establish democracy in Nicaragua, to get into the much-vaunted reconciliation process, which ultimately is just a bunch of words, we must learn to respect institutions. We must have mutual respect, or otherwise everyone will always be talking of democracy to suit their own style. Moreover, our communique seeks to inform the Nicaraguan people that there is true liberal unity. There are two kinds of unity. One is unity for the sake of unity, and the other is unity of ideology, conviction, and principles. The latter is the kind of unity liberals have in mind.

We are not thinking in terms of pro-Somoza iiberalism or pro-Sacasa liberalism, or liberalism of any other faction. This is simply the merger of the liberal ideology. Therefore, we believe this is greatly beneficial for the country's political, economic, and social development. [end recording]

Here is PLI leader Mario Montenegro, and we would like him to comment on the Liberal Unity communique, which states that Godoy's life is in danger because of the FSLN attacks against him.

[Begin Montenegro recording] As Zuniga stated, the communique is a very beautiful sign of developments taking place in all the liberal factions. The statement called on the liberal international organization and the world to learn of the sinister plan by hidden forces in Nicaragua, chiefly orchestrated by the FSLN, to imperil Godoy's life and well-being. He has been the target of vile reports because he has adhered to the principles of the government platform and the promises made to the people during the successful campaign to have a national salvation government. This government is based on national reconcilition.

However, national reconciliation must first have justice. Otherwise, it can be considered anything, like blackmail or cowardice, but not reconciliation. The communique seeks to inform the people of Nicaragua and the world of the unyielding stance adopted by liberals, Godoy, and Nicaraguans, who supported and still support the National Opposition Union's principles regarding the government plan and its campaign promises. [end recording]

Suit at Hague Said To Be Settled Out of Court

PA2108214190 Managua Sistema Nacional de Television Network in Spanish 0300 GMT 21 Aug 90

[Italicized passages are recorded]

[Text] Foreign Minister Enrique Dreyfus has confirmed that an out-of-court settlement has been reached with the United States in the case at The Hague.

Following a meeting behind closed doors with the Foreign Relations Committee, Dreyfus agreed to answer some questions from reporters. With regard to the case, he said that the suit was filed at a time when relations between Nicaragua and the United States were bad. He described the current relations as follows:

[Dreyfus] *Now the situation is different. We are dealing with Mr. Bush's government, a government that has good relations with the government of Chamorro. These good relations have been proven by the fact that Mr. Bush's administration gave us an initial $300 million to help us in the country's economic reactivation. We will receive another $200 million before the end of the year. This is a total of $500 million in less than 10 months. This is 10 times more than what we have received from any other country.*

The foreign minister promised to promote a solution that is beneficial to the Nicaraguan people confirming an out-of-court settlement with the United States.

[Dreyfus] *As some other Chamorro government officials have mentioned, we will not desist from the settlement that the International Court of Justice is urging us to make. We want that settlement to be the most advantageous for Nicaragua.*

Meanwhile, Deputy Reinaldo Antonio Tefel said that he hopes that the government will keep the promises made by the foreign minister.

[Tefel] *We hope that the government will keep all the promises made by the foreign minister today—that is, to seek the best for Nicaragua in line with its laws and Constitution. If a settlement is made in accordance with The Hague and our laws, then it must be truly and fundamentally beneficial for Nicaragua.*

Enovy to Czechoslovakia on Havel Visit

AU2108103590 Prague MLADA FRONTA in Czech 14 Aug 90 p 5

[Interview with Emilio Rappaccioli, charge d'affaires in the CSFR, by Pavel Posusta; at Nicaraguan Embassy in Prague on 13 August: "First Difficult Steps"]

[Excerpts] Yesterday at the Nicaraguan Embassy in Prague, we discussed the current Nicaraguan situation after the three-month long administration of Violeta Chamorro's government. Emilio Rappaccioli, Nicaraguan charge d'affaires in the CSFR, answered our questions: [passage omitted]

[Posusta] What do you expect from the visit by Vaclav Havel, our highest representative, to Nicaragua?

[Rappaccioli] Frankly speaking, few people expected such a high-ranking visit so soon. It is Vaclav Havel's first visit to a Latin American country and, therefore, it also has a historical aspect. This visit is a start of the new era in mutual relations, which have been single-sided so far. We can give as an example the trade exchange that was made on the basis of Czechoslovak government credits, and we have an enormous deficit in this respect. (In 1989 Czechoslovak exports represented 16.8 million dollars, while imports represented 1.9 million dollars). There are many areas in which cooperation could take place, be it trade, or other areas, for example education—currently, there are 145 our citizens who received a scholarship in the CSFR....

[Posusta] Can you tell us briefly what will be the program of the visit paid by our president to Managua?

[Rappaccioli] Of course, there are many things that can be done in a short period of time—talks will be held between President Havel and President Chamorro, a meeting with former President Daniel Ortega will be held, and a brief familiarization with Managua and the surroundings, for example, the excursion to the volcano near the town of Masaya will be undertaken. At the same time, intensive talks will be held between other members of the delegation and their Nicaraguan counterparts.

Panama

Endara on Freedom of Expression, Privatization

PA2108195990 Panama City Radio Ancon in Spanish 1700 GMT 21 Aug 90

[Italicized passages are recorded]

[Text] President Guillermo Endara has said that he will never do anything against the freedom of expression; however, if the media begins to carry out actions against the state's internal and external integrity, then that is a crime. Let us listen to an excerpt of an interview that Endara granted to our News Director Ramon Jimenez Velez:

[Endara, in progress] *...within democracy, of course. We do not intend to be that naive by thinking that everything is going to be a bed of roses. We know that the enemies of democracy infiltrate themselves in our democracy. These enemies can say anything. They can explain their views. They can even say that democracy is not working and that there should be no freedom of expression. They can use the democratic system and freedom of expression to voice undemocratic ideas and even ideas that go against freedom of expression. They can use their freedom of expression in that sense, but let them not go any further. If they begin to carry out acts that go against the state's internal and external integrity, then that is a crime. It is a crime that we must punish. We must defend this democracy not only by promoting it but by avoiding, punishing, and persecuting crimes that involve specific actions against democracy and our system of government.*

He also referred to the so-called political opportunities within the government. Let us listen to what he said:

[Endara] *I think that reports about the so-called disputes over political opportunities are being exaggerated. Logically, the Civic-ADOC [Civic Democratic Opposition Alliance] parties are responsible for this government. It would be inconceivable to assume office and leave all the members of the Dignity Battalions and Codepadi [Committees for the Defense of the Fatherland and Dignity], as well as all those who lent themselves to oppressing the people during the dictatorship, in their posts. It would be inconceivabale to reach a point where we would all have to be independent because being a party member would be tantamount to being a member of an inferior race. That cannot be. That is absurd.*

Those who talk about political opportunities and disputes over political opportunities have not stopped to think. Those are individuals who have a complex because they were unable to make progress in their political careers. So they feel that the only solution is to be independent.

I believe in the political party system. There is no democracy in the world that is not based on this system. We must realize that it is so. When it wins an election, a political party must assume the responsibility of leading the state. Thus, to appoint party members in ministries and state agencies does not mean that there is a struggle for political opportunities. It is the consequence of having political parties and of the commitment that a party has to lead the country.

These 21 years of dictatorship have been a discredit for public activity. It is crazy to privatize the Social Security Fund, Endara concluded:

[Endara] *My doctrine is Arnulfism, and as an Arnulfist, I do not oppose the state's participation in private activities. While Arnulfism has been in power, it has never opposed this. We know that the state must intervene in the economy. It must be a moderate but real intervention. The state protects the good of all. Private businesses seek their own benefit. The state seeks everyone's benefit. In this respect, I am an Arnulfist. I have no personal concern over the state's intervention in private activities.*

However, the past 21 years were a discredit to the state's activities. Any public intervention by the dictatorship was disastrous. Whenever the state got involved, it introduced corruption, wastefulness, and the bad management of funds. Every evil that could occur in any management,

whether public or private, occurred during the dictatorship. It was an example of mismanagement. Anything it touched turned into filth.

Therefore, in the eyes of the people, the state's participation in any economic activity is a discredit. Unfortunately, that is the situation, and there is no doctrine or stand that can allow us to say that the state is great and that it can be a good manager. We know that in other countries the state is a good administrator. In Europe, we see states participating in private activities with an efficiency that is unbelievably good. These states do not seek private profits but the common good. We cannot even expect to talk about that in Panama, let alone have it happen. All state agencies engaged in private activities already have a series of problems that we inherited from the dictatorship and are not easy to solve. Consequently, we feel that it is advisable, even for an Arnulfist, to privatize some activities, but not all of them.

More on Endara's Comments on Plan

PA2208002090 Panama City Radio Ancon in Spanish 2207 GMT 21 Aug 90

["Excerpt" of interview with President Guillermo Endara Galimany by station news director Ramon Jimenez Velez on 21 August—recorded]

[Text] [Endara] Today it is not a matter of whether there is democracy or not or if there is freedom or not. That problem has already been solved; it is something of the past. Democracy and freedom are taken for granted, and the Panamanians have a right to that. There is no sense in discussing that. The Panamanians now want sources of employment.

The people are concerned, and they want democracy to work for the benefit of the people. That is why we feel the government is not weak, but democratic. Panama does not need to go through an intermediate government, as was the case with Spain. Perhaps it was necessary in Spain because there was a civil war before the Franco dictatorship and because Franco left a dictatorship installed. Thanks to the king of Spain, and also to the political parties and the Spanish people, that situation has changed considerably. The Spanish people have worked very hard for this.

If there is one government that has had a defined goal, it is ours. As of 20 December 1989, we established the guidelines for this government, and we have followed those guidelines. From the very first day, we decided to establish a democracy and comply with all freedoms. No one has changed our course.

We are constantly receiving hints that we should change, that we should shut down a certain newspaper. I am constantly receiving hints, asking me why I am allowing such libertinism.

I must say that I will never do anything—absolutely nothing—against freedom of expression, even if the newspapers question me by asking how I can permit a specific newspaper to remain open or how I can tolerate a specific statement. Freedom of expression will prevail in our democracy. It will continue, and no one will make us change our path, because it is a firm path.

Regarding our economic plans, I have been constantly attacked. I do not care, because that is the price I must pay for democracy, and I will gladly pay that price. I am paying it gladly. Ever since we began our political campaign, we more or less outlined our position in the economic field...[corrects himself] not more or less, but very clearly. We did the same thing during the first days of our government. We clearly outlined our economic plans.

However, we have tried not to impose our position, because we believe in democracy. Democracy means not imposing positions, but trying to convince others. It is a much more difficult form of government, but it is democracy. It is the best form of government.

We presented an economic plan two and a half months ago, which had never occurred in Panamanian history. In many Latin American countries, even governments that call themselves democratic are imposing economic plans. However, two and a half months ago we presented our plan, and we asked the Panamanian people, industrialists, merchants, unions, and professional groups to study and debate it. When some groups reacted by saying that we wanted to impose our economic plan, I said to them: No, you can discuss it, object to it, criticize it, and propose alternatives. This has been done. This had never happened before in Panamanian history, and I insist not even in Latin America.

* New National Economic Plan Outlined

90CA0083A Panama City LA PRENSA in Spanish 10 Jul 90 pp 3-11

[Document by Ministry of Planning and Economic Policy: "National Strategy for Development and Economic Modernization," dated June 1990; first paragraph is LA PRENSA introduction; outline rendered as in original]

[Text] Note: The Ministry of Planning and Economic Policy has prepared a diagnosis of the country's economic situation and is proposing a plan for overcoming the problems. Because of the importance of the subject, LA PRENSA is providing its readers with the complete text of that valuable document and invites them to comment on the topics it deals with.

Introduction

Panama is currently in a critical economic situation. Domestic production has fallen by 20 percent, and unemployment is estimated at over 25 percent. From 1988 until now—mid-1990—banking has been operating with restrictions on deposits, a situation that hampers the normal functioning of the credit system. Some sectors are at a standstill, examples being the

construction and building materials industries, the furniture trade, and sales of automobiles and durable consumer goods. Service of the foreign debt has been suspended.

Panama's economic problems of the moment are partly the result of domestic and foreign political conflicts. Domestically, the government was militarized and there was instability due to the lack of political freedom and, later, the fact that no one knew the election results. Externally, there was growing conflict between the Panamanian and U.S. Governments. The result was the leveling of economic sanctions against Panama, and those sanctions helped make the economic crisis worse. Government corruption increased during the period of the crisis, and government money was used for political purposes with no corresponding economic productivity. The situation eventually culminated in military action and the looting of businesses.

Panama's economic problems are not the result solely of political conditions. Also contributing to them were economic policies aimed at implementing a philosophy of the "activist state," as opposed to a free market philosophy. First of all, as far as state participation was concerned, a) the "producer state" was developed through the establishment or expansion of state-owned enterprises in areas such as electricity, telephone service, agricultural activities, development banks, and so on. Those enterprises proved to be inefficient as regards both their investment planning and their production operations; b) the government maintained an antagonistic attitude toward private, and particularly local, enterprise. State-run activities occupied the space reserved for private production; c) government money was used to solve employment problems, improve the distribution of income, and promote development through national investment. During the 1970's, the government actually created 70 percent of all new jobs. To a large extent, this was all accomplished with foreign financing or by raising taxes; and d) lastly, the government's discretionary power and its decisionmaking power in different economic areas produced a situation in which political favors determined the operation of economic activities, and the result was corruption and inefficiency.

As regards the private production system, a policy of state intervention and inward economic growth was pursued at the expense of potential exports. In the markets, there came into being a matrix of standards, regulations, and incentives resulting in inefficiencies, monopolies, privileges, unjustified transfers, and a lack of competition. As examples of those situations, we can mention the following: a) the agricultural sector was oriented toward food self-sufficiency in the area of basic cereals. Production for the domestic market—including products which we do not produce efficiently—was promoted; b) the industrial sector was oriented toward import substitution, with high levels of protectionism and low productivity. The "inward" orientation of production was encouraged, directly and indirectly, at the expense of export promotion; c) labor legislation made production expensive, created inflexibility in the operation of the market, and set up barriers to the greater use of manpower, thus reducing the efficient and complete utilization of available labor resources; and d) in other sectors, an accumulation of distortions is hampering the operation of free market mechanisms and restricting the operation of the private sector. In addition, other distortions in the price formation systems and restrictions in the housing market have been created.

The various economic policy measures are manifested in the price system. The high price of goods and services is a direct reflection of the measures adopted to protect various sectors and of the effect of the public sector's size. In turn, there is a circular effect: the nominal equilibrium wage is adjusted to maintain a specific level of real wages, but in dollars, and the result is high wages, which in turn affect the costs and prices of local production. Because of that, local costs are high, and the ability to compete abroad is reduced.

The combined effect of all those actions and policies was to create an inefficient system. The loss of efficiency can be demonstrated in various ways. Exports lost their traditional dynamism and grew slowly during the 1980's. The economy experienced growing difficulty in absorbing the supply of manpower. In the industrial sector, the amount of investment necessary to create a new job increased. And despite a considerable investment effort, the agricultural sector grew by only 2.3 percent between 1970 and 1985. Domestic production grew at a slower rate than the factors of production (capital and labor)—a unique phenomenon in the developing countries. Another indication of the loss of efficiency is consumption and exports.

Establishment of the new government ended a period of political instability. The first step was to organize a civilian government—the necessary precondition for putting the economic policy in order. For that purpose, the task of reorganizing state organizations and transforming the judicial branch began. Steps were also taken to purge the civil service, the institutions were audited, contracts creating personal privileges were canceled, and the Directorate for the Recovery of Property was established. Other measures helping to improve confidence are the actions undertaken to normalize the banking system and straighten out public finance.

Several measures are helping to reactivate demand. One of them involves the commercial credits from suppliers, banks, and head offices that finance expenditures and improve the system's liquidity. That kind of financing was reduced during the politico-economic crisis. Now it is contributing to the reopening of businesses and the buildup of inventories with no need to reduce domestic spending. The U.S. loan of $500 million through the Export-Import Bank and a smaller loan from the Spanish Government represent another source of liquidity and

financing for spending. Finally, deposits by Panamanians that were withdrawn from the banking system during the crisis are now returning.

Credit flows and donations to the public sector are the other component that will help promote the economic takeoff. The aid package from the United States includes $420 million in donations. And $20 million is already being spent in Panama to indemnify the victims in El Chorrillo, while $5 million is being used for small business loans. A sizable share of the aid from the U.S. Government will be used to amortize the debt owed to international financial institutions. But beginning in 1990, U.S. aid will provide funds for public investment projects amounting to at least 50 million balboas this year and an additional 50 million balboas in 1991. When financing by the international financial institutions is resumed, the Panamanian Government will be able to invest another 100 million balboas in 1990 and 1991.

The reaction by the private sector was not long in coming. A great many of the businesses that closed following the acts of vandalism are now operating. Investment programs, including building projects, are being activated, and the flow of consumer credit is being reactivated. As a sign of confidence in the future of Panama, a stock exchange recently began operating.

The Panamanian economy has demonstrated a great capacity for recovery on several occasions in the past. Examples are the crisis of 1964, the crisis in the mid-1970's, and even that in the mid-1980's. The mobility of capital resulting from the existence of an open monetary system, with the participation of foreign capital, produces a system capable of reacting to the proper incentives, and it is hoped that that is what is also happening in the present circumstances.

Financial Stabilization Program

The stability of the financial system is an important element in ensuring the optimum operation of the Panamanian economy. The local monetary and banking system permits the free movement of capital. Those markets are sensitive to problems of stability and confidence. The emphasis on a market economy and exports of banking services require a stable financial system.

Restoring confidence in the system reduces the so-called country risk. This encourages private commercial banks to use international funds for the domestic financing of the private sector, as was the case before. The highest level of confidence will encourage the rapid return of Panamanian deposits from abroad. Lastly, financial stability encourages international investments, both direct and financial.

The principal step in that direction consisted of eliminating the restrictions on banking operations. To begin with, the freeze on savings deposits was lifted, and it was announced that fixed-term deposits would also be unblocked in mid-July. The result of those measures was an increase in deposits. There is also a program for reorganizing public finance, and it includes a strategy for negotiating the foreign debt.

1. Financial Reorganization of the Public Sector

The reorganization of public finance began with the formulation and approval of the national budget, which will be the guiding instrument in government spending. This after three years in which the government operated from a single fund and with no budget.

The 1990 budget is a conservative one which reduces expenditure on personnel. This was accomplished by eliminating unfilled positions, suspending pay increases, limiting the number of individuals with an expense account, and, in some cases, reducing the reimbursable amounts on those expense accounts. Another important area in which significant savings were achieved is that of military spending. Finally, payment of the "13th month" to government employees was suspended. The result of all the measures described has been a considerable reduction in spending, and that in turn has produced a surplus—something not seen for several decades.

The previous government had stopped making payments on the public debt. It had also stopped paying its suppliers as well as amounts owed for the lease of buildings, computers, photostatic machines, and rented equipment. Moreover, it was not transferring to banks, financial institutions, and financiers the amounts owed as a result of discounts granted to government employees on the payment of rent, mortgages, and personal loans. Finally, funds from the National Bank and the Savings Bank were being used to cover government spending. What all of that amounted to was forced lending on the part of the private sector to finance the deficit.

Under that financial policy, the previous government dealt with an economic crisis by transferring the adjustment cost to the domestic and foreign private sector. Some firms and activities already affected by the economic depression and the banking restrictions found their liquidity further harmed by the government's withholding of funds and its failure to pay its bills. From that standpoint, the management of public finance helped make the economic crisis worse.

The consolidated budget for the nonfinancial public sector is based on estimated current revenues of 2,070.9 million balboas and capital revenues of 203.0 million balboas. Authorized expenditures are in balance with tax collections and expected revenues. Extraordinary revenues and foreign aid have not been included, and when they are received, special appropriations will be sought from the Legislative Assembly. An important aspect of the management of public finance is that expenditures will not be financed by recourse to funds belonging to the National Bank—as has been done in the past.

This new financial discipline calls for the timely payment of amounts owed to suppliers and local firms, thus assuring access to reasonable purchase prices. Reimbursement of third parties for direct discounts granted to

employees has been normalized. Government agencies are reaching financial agreements with suppliers for the payment of their back debts.

According to one financial practice in the past, bills incurred by the government and state-owned enterprises for telephone, water, and electricity service were not paid monthly by the unit incurring the expenditure. Instead, one total bill was paid by the central government. The consequence of this was that the ministries and autonomous institutions had no incentive to reduce those expenditures. In the 1990 budget, expenditures by government entities for telephone service and public utilities will be part of their budgets and will be payable monthly. This will encourage economy and the rationalization of government spending.

In recent years, operating the government on the basis of a single fund created administrative disorder and left unsettled balances and debts among government entities—between the government, the Social Security Fund, and the National Bank. A consolidated statement of interinstitutional assets and liabilities has been produced, and ways of settling those accounts are being studied.

Beginning in 1977, the government consolidated its transactions with the Social Security Fund. As a result, employer contributions, employee contributions, and even interest payments were paid in the form of promissory notes, usually many months behind schedule. Furthermore, the government was not reimbursing the Social Security Fund for extra amounts paid out in connection with special retirement. That affected the fund's finances and reserves, since it received no income during the periods of arrears and the interest paid on the promissory notes was less than the commercial rate of interest. Actually, those mechanisms constituted ways of financing greater expenditure by the central government without recording the fact. During the current budget year, the Social Security Fund is being paid in cash.

2. Strategy for Negotiating the Foreign Debt

When it took office, the government found a foreign debt totaling 3,813.5 million balboas, of which 2,209.3 million balboas were owed to the foreign private sector. In addition, payments to international organizations were 540 million balboas in arrears.

That posed a dilemma. The government could:

- 1. Make sizable payments on the debt by taking money away from current expenditures and investments, a solution that would jeopardize economic recovery, or it could:
- 2. Refuse to acknowledge the debt, thus undermining confidence in the system and preventing us from recovering our status as a creditworthy country.

The government decided to take steps to wipe out the arrears owed to international financial institutions (the World Bank, the International Monetary Fund, the Inter-American Development Bank [IDB], and the International Fund for Agricultural Development). This meant making the decision not to increase the foreign debt inherited from the previous regime. For this year, the budget includes an appropriation for making the current payments.

It has been decided that the international financial institutions (IFI's) will be paid $540 million, that being the amount of arrears accumulated as of 31 December 1989. The funds will come from the following sources:

- Part of the donation from the United States: 130 million.
- An amount we hope to obtain from the support group consisting of Japan, China, and European countries: 130 million.
- Panama's contribution: 130 million.
- From a bridging loan provided by the U.S. Treasury: 150 million.

By those means, Panama will bring its payments up to date and once more be in a position to obtain more loans.

The international financial institutions are not renegotiating the debt. The reason is that they support the principle that the flow of funds they receive as debt service from the debtor countries (amortization and interest) should correspond to the amount of funds they grant those countries in the form of new financing. In Panama's case, the granting of new loans has been suspended for the past three years, so it is expected that there will be a net inflow from the IFI's during the period from 1990 to 1992, thus compensating for the disbursements made to pay off the arrears.

Receipts from international government banks (the IBRD [International Bank for Reconstruction and Development], the IDB, and the IMF) will be loans for quick disbursement. They will be used to pay off the bridging loan from the U.S. Treasury and to finance investment projects. There is also hope that it will be possible later to obtain seed capital from the IFI's for redeeming our commercial debt on the market.

Once our relations with the IFI's are normalized, negotiations will begin with the Paris Club, which consists of Panama's creditor countries (bilateral debt). Those negotiations require that Panama first be reclassified by the IFI's as a creditworthy country.

The situation with loans owed to private banks and with international bonds is as follows:

- a) Panama acknowledges its entire existing debt and will undertake to negotiate repayment terms.
- b)The payment of interest has been suspended for this year.
- c)It is expected that negotiations will get underway to obtain refinancing terms similar to those obtained by Mexico and Costa Rica. This will mean a significant

reduction of the debt and better terms for the payment of late and current interest.

The strategy has been to negotiate in such a way that the net flow of funds will be positive. In that way, servicing the foreign debt will not cut into the funds necessary for the recovery of the Panamanian economy.

Economic Programs

The effect of the previous economic policy in every economic sector was to create distortions and protectionist barriers, discriminate against exports, and create monopolies and privileged groups of businessmen and workers. Each sector sought a form of protection, with privileges and "incentives," at the cost of the system's efficiency. That interconnected system of imbalances generated activities in areas where we are not efficient, resulted in high prices for local goods and services, and transferred income to the groups being benefited. Directly or indirectly, that had a negative effect on exports, the ability to generate productive employment, and the incomes of sectors not being benefited. Modernizing the system requires a simultaneous reduction in the levels of protection and in the interconnected system of distortions.

The measures discussed below have to do with the goals in each sector. The parameters will be negotiated, and the program will be completed within three years. In this case, it is important that the adjustment not be concentrated in a single sector: it must comprise the industrial, agricultural, labor, and other sectors. The public sector has already undergone a series of adjustments, and because of that, it is taking the initiative of asking the other sectors to do the same.

Export Promotion

The mainspring of development in Panama has been the export sector—concerned with traditional activities involving services related to our so-called geographic location and with traditional and nontraditional exports of goods.

Our ability to export will increase as a result of the deregulation policy, but direct measures are also being adopted. In the area of service exports, the program includes the following:

- a) Reactivation of Panama's position in the registry of shipping fleets. That position has been harmed by the activities of consuls who collected illegal fees from ships and reduced the attractiveness of flying the Panamanian flag. Regional merchant marine offices have been set up in various cities in Europe, Asia, and the United States.
- b) The fact of having maintained the operation of the banking system and the freedom of capital movement, along with the prompt and successful reopening of the banks, is an important element in promoting exports of financial and commercial services.
- c) Operations in the Colon Free Zone are expensive. This reduces the zone's potential and leads it to specialize in the trading of products with a high value per unit of weight. So far, costs have been reduced by eliminating charges due to administrative corruption. In addition, it is hoped that land and air transportation costs and port costs can be reduced.
- d) To promote tourism, tour operators will be allowed to operate private means of transportation. It is hoped that the conditions will be created for allowing American firms to sign agreements in Panama. An increase in the number of air carriers has been achieved, and it is hoped that that activity will be deregulated even more. Lower energy rates and elimination of the tourist tax will reduce hotel operating costs.

Multisectoral Export Zones

The modernization of the economy has several strategic components. The first is based on the establishment of a dual system of multisectoral zones for the export of goods and services.

As far as goods are concerned, all traditional assembly activities (clothing, the assembly of electronic goods, and so on) will entitle firms to a special legal framework enabling them to import inputs, process those inputs with local manpower, and then export the finished product to markets in the developed countries. As regards services, activities such as satellite communications, international information networks for automatic data transmission, collection centers for agricultural products intended for markets in developed countries, and the handling of containerized freight will find the ideal location and the appropriate incentives in Panama.

Our economic and financial system, combined with the new legal framework that will regulate activities in the multisectoral zones, will produce the ideal conditions in which foreign investment, together with domestic investment, will be able to develop the modern services required by the new flow of goods resulting from the growth of the international market.

The success of this program, which requires maximum productivity, makes a special labor system necessary. It also requires a reduction in operating costs—including the cost of building facilities. For that purpose, firms will be able to import building materials at international prices. Finally, low domestic transportation costs are needed, and with that in mind, restrictions on transportation are being lifted and port costs are being reduced.

Panama has many advantages when it comes to operating multisectoral export zones: as members of the Caribbean Initiative, we have free access to the U.S. market, including the special program for the fabrication of clothing using U.S. materials. Our geographic location makes it possible to obtain supplies under better conditions and at lower cost, given our access to international shipping routes. The Panamanian banking system permits the free movement of capital, earnings, foreign exchange, and credits, and that is an advantage in

comparison with neighboring areas. Proof of this is the interest which foreign investors have shown in engaging in those activities in Panama.

2. Deregulation of Labor Market

Labor was another sector suffering from intervention and distortion. For one thing, the public sector had become the employer of last resort. This was done through emergency employment programs and the state's so-called employment mania. For another thing, the state intervened directly in the setting of wages and the mechanisms for negotiating wages through specific action in connection with collective bargaining contracts. Moreover, the rules of the game were altered to create labor rules designed with political objectives in mind. Finally, taxes on the worker and on the use of labor were increased. The policy of early retirement, overmanning in the public sector, and the rise in school attendance reduced the labor supply by taking people of working age out of the labor market. But all that did was postpone the problem of unemployment; those policies could only be maintained through government spending financed by international loans.

The labor rules, along with other policies, helped reduce the economic system's ability to absorb the labor supply. This became obvious as early as the 1970's but grew appreciably worse in the 1980's, when it became difficult to absorb the new labor supply at suitable wages. The situation is made worse by the existence of incentives which subsidize the use of equipment instead of manpower—meaning, in particular, the practice of exempting machinery imports from duty, rules for accelerated depreciation, and reinvestment incentives. The incentives must be revised in such a way as to promote employment.

The labor rules contained in the Labor Code make it expensive to use manpower and introduce distortions into the operation of the labor market. The "job security" clause and the high layoff costs introduce inflexibility into the operation of the labor market and restrict the employer's freedom of action. The fact that this is a factor limiting productivity has been pointed out not only in various technical studies but also by employers and foreign investors. In some studies, it was found that by reducing productivity, the job security rule (the high cost of layoffs) increased the real cost of manpower by over 15 percent.

The philosophy behind the Labor Code was that the worker, and especially the industrial worker, needed special protection. That was appropriate in view of the existence of a protected industry and of service export activities where we had special advantages. Higher costs or low productivity were passed on to the consumer or were absorbed without seriously affecting our international competitiveness. The situation today is entirely different: if Panama is to grow, its development must focus on the competitive export sector, and even domestic production will take place within a more competitive system. In those cases, labor rules must not affect productivity, labor costs, or market flexibility any more than necessary.

The reform of labor legislation has been described as a sine qua non if we want to be competitive with our exports of goods and services and attract investment by foreign firms. Labor legislation was reformed in 1986, but that reform was incomplete and left many restrictions in effect. The basic problems in the current economic situation are unemployment and the need to generate exports and increase our efficiency. The labor rules are aimed at guaranteeing higher incomes for those already working, but are of no use when there are no jobs. Today it is necessary to create incentives for those needing work and also to safeguard existing jobs. During the recent politico-economic crisis, voluntary agreements were negotiated between workers and the firms. Those agreements included the following:

- A shorter workweek.
- Less pay.
- Postponed vacations.
- Leave without pay.

Those agreements demonstrate the working sector's good will and flexibility when it comes to making adjustments made necessary by circumstances.

It is important to minimize factors which create inflexibility and labor conflicts. This can be achieved in part with no need to amend labor legislation. It is enough to provide appropriate regulations covering the following:

- Leaves of absence to attend athletic events, training courses, and national and international meetings.
- Regulations governing apprenticeship contracts.
- Union rights (by mutual agreement).
- Rules governing pay for special shift work.

Other important matters must be negotiated, including a) the inflexibility of employment and/or excessive layoff costs; b) additional personnel administration costs; c) rules governing piecework, small business, and the setting of bonuses; d) principles governing compulsory union membership, the closing of a firm in case of a labor dispute, and the lack of flexibility with respect to labor contracts; e) revision of the legal rules so as to reduce the cost of litigation; f) a reduction in the number of days off for personal reasons, sickness, and holidays; and g) democratization of union rules and principles, particularly as regards the choice of union representatives.

The existing labor rules are justified within the context of a system that protects industry and distorts other sectors, but in turn, they are used to justify the permanence of that system. The sector of labor that defends labor regulations within a distorted system would benefit if, in exchange for its giving up those regulations, other features of the economy that are prejudicial to it were decontrolled. It must also be recognized that those who have been unable to become a part of protected or

privileged sectors—meaning the majority of the population—are being harmed by the lack of jobs, low wages, and the high price of local consumer goods.

3. Policy of Industrial Protection

It has been proven in the experience of many countries and by theoretical analysis that the policy of industrial protection has had a negative effect on economic development. When it is efficient, industrial activity can compete with imported products at low levels of protection and can even export its goods. Otherwise, protection is a mechanism that supports the existence of activities which, being unable to compete, are inefficient by nature, although that is the reflection of problems unrelated to industry. Levels of protection in Panama are relatively high, as can be seen in table 1.

Table 1: Comparison of Prices and Effective Protection Levels, Selected Industrial Products, Panama, 1985

	Price*		
Item	Imported CIF	Domestic Product	Effective Protection (%)
Evaporated milk**	1.25	1.26	-15.57
Dehydrated soup***	2.58	4.60	-
Tomato juice**	0.80	0.97	-
Tomato paste	1.76	2.55	131.29
Liquid minestrone soup	1.34	1.94	84.93
Ketchup***	0.84	1.77	-
Toilet soap	1.87	2.28	287.57
Soap powder**	1.92	2.02	-2.64
Plywood	0.76	1.31	184.99
Sacks***	2.56	3.41	-
Cement	0.07	0.10	159.81
Mosaics	0.54	0.73	54.42
Steel bars***	0.32	0.57	-

Source: Center for Development Technology, "Effective Protection in Selected Industries in the Republic of Panama," Panama, 1985, Ministry of Planning and Economic Policy-World Bank program.

Note: "The expression 'effective protection' is used to signify the degree of protection accorded domestic capital and labor. It is measured by the difference between the estimated added value at domestic prices and the estimated added value at international prices, expressed as a percentage of the latter."

* Prices expressed in balboas per net kilogram.

** Low protection is partly the result of problems involved in determining inputs and their prices.

*** In the case of these products, there is negative added value as measured in international prices. This means that it would be cheaper to import the finished product than to import its components. Moreover, in these cases effective production cannot be measured adequately.

The main argument in favor of protection is the "emerging industry" argument: a long period is required to develop the experience and capability needed for competing. But nearly all industrial activities in Panama are over 20 years old, and some are over 40 years old. The garment industry is the exception. Despite being the least protected industry in Panama, it has developed the ability to compete with imported products and even to export.

In the food industries—or industries for the processing of agricultural products—the final cost of the product depends on the cost of the agricultural inputs. The existence of a system of agricultural protection results in high farm prices, and those prices are passed on to the industrial sector. Because of that situation, there are food companies that are efficient processors but whose final prices are very high. The result is that even though they are efficient, they cannot compete with imported products.

The lack of competition in many areas of industry eliminates the most important motivation for reducing costs and increasing productivity. The lack of economies of scale is itself another reason why a local firm cannot compete. In other cases, the problem is due to the fact that we are producing items for which we do not have comparative advantages. There are also cases where the firm is inefficient but survives thanks to high levels of protection.

The problem of the relative efficiency of industrial firms can reach extremes, as has been demonstrated in various countries. For example, there are cases where inefficiency is so great that the industry or activity has a negative added value when its production is measured at international prices. The costs of protection have been measured indirectly by calculating the rate of effective protection, which is the implicit tax levied on competitive imports. Table 1 compares the prices of a few

industrial products manufactured in Panama and the United States along with the effective levels of protection applying to each.

Industrial protection is a policy skewed against the exportation of goods. The high cost of the protected products affects the production costs of activities using those products as inputs. It also has an indirect effect on investment costs—as in the case of building materials. The higher level of domestic prices is reflected in the wage level expressed dollars, and this increases the local cost of production, thus indirectly reducing competitiveness. The protected industry is rarely competitive in international markets. Moreover, the higher industrial profitability and higher pay divert funds away from export activities.

Protecting products used as inputs in other activities—examples being building materials, wheat flour, packaging materials, salt, potatoes, cardboard boxes, and so on—has a direct effect on the operating costs of those activities. In Panama, protection of the building materials industry is excessive. The limited economy of scale available to local firms and the intensive use of expensive energy result in high production costs, making excessive protection necessary. As a result, we have building materials costing twice as much as those in other countries or even more (see table 3). The rising cost of materials creates problems for the construction industry. The harm done to the construction industry is greater than the benefit gained from producing the products in question. In the present situation, considering the existing level of unemployment, reducing the price of materials can help revive the construction industry.

As far as the production of edible oil is concerned, a thicket of distortions has been created. First of all, the industry imports soy products and then produces oil by a simple process, but both are highly protected. Second, the production of African palm oil has been promoted even though its production is inefficient and is maintained by charging prices far above those in the world market. This in turn serves as justification for protecting the edible oil industry. Continuing this situation means maintaining an inefficient activity indefinitely. But getting out of the situation will require a special program.

The petroleum refining facilities were designed to refine light crude oil. When Panama acceded to the San Jose Convention, the government forced the firm to use Mexican and Venezuelan petroleum, which is heavy crude. The result was inappropriate use of the refining facilities and higher costs. Moreover, less than 60 percent of the installed capacity is being used. Lastly, technological changes have made those facilities obsolete. For all those reasons, the refining process has become expensive and inefficient. The result is that the company is no longer competitive in supplying bunker oil to passing ships and finds itself forced to ask for more protection.

The purchasing mechanism provided for by the San Jose Convention led the government to sign the Coral Gable Agreement (or similar extensions) under which the petroleum refinery is guaranteed a specific level of profitability and local production is excessively protected.

All of the above has been reflected in high prices for petroleum products and losses for the nation. The high cost of this important input affects the price of transportation and the cost of shrimp fishing and results in an additional charge for cement, electricity, and, indirectly, all manufactured goods. Moreover, there are high taxes on petroleum which further increase the price of fuel in Panama. As a result of this, international competitiveness is lost and the economy's competitiveness is reduced.

Protecting industry is an inequitable way of organizing the production and distribution of national income. A group of businessmen benefits as a result of protection, the lack of competition, and, in some cases, the existence of monopolies or oligopolies. Industrial workers protected by favorable collective bargaining agreements also benefit, while the rest of society is forced to pay extremely high prices for industrial products.

It is necessary to stress the need for an adjustment in the industrial sector. First of all as an important element in the policy for generating efficiency. But also because less protection is the price to be paid for reducing other distortions—that is, eliminating smuggling, reforming the labor market, lowering the price of agricultural products, and reducing public utility rates. If no adjustment is made, we will in fact be increasing the levels of industrial protection.

The recommended policy would include the following features:

- 1) A start would be made by establishing a system of uniform protection—let us say of from 60 to 70 percent—with no import quotas, with later reductions to be negotiated. A positive step was taken when the protection levels applying to footwear and clothing were reduced. In that case, a mechanism of agreements negotiated by producers and merchants for determining reasonable tariffs was used. Agreement would also be reached concerning the operating "dorma" [possibly operating method intended] and protection for the petroleum refinery.
- 2) In the case of new activities, an import tax of no more than 20 percent (including consular fees) would be levied on competing products (no more than 30 percent in the case of agricultural products). In addition, inputs and capital goods would be subject to import taxes. This would provide national added value with a protection level of from 20 to 30 percent. That protection is considered reasonable in view of the fact that the other distortions in the economic system would be eliminated at the same time. The

payment of taxes on inputs is justified because otherwise, we might encourage the establishment of activities providing very little added value—that is, phony businesses.

- 3) In the case of existing industries, it would be appropriate to continue reducing protection levels until the lowest protection levels are reached within a period of three years. Those negotiated levels would take into account cases where expensive local inputs are used (agricultural products, for example).

Industrial firms would pay an import tax on imported inputs. This is being recommended for two reasons:

- When the activity is not competitive, a reduction in its costs is not passed on in its entirety to the consumer.
- The import tax must provide protection for local added value, and if inputs continue to be exempt, the protection provided for added value would be greater than that indicated by the corresponding tax.

- 4. There would be instituted a program for reducing protection more quickly in the case of certain building materials, especially steel, wood, cement, plywood, nails, and sheet zinc for roofs. It is also recommended that protection be reduced more quickly in the case of products which are inputs for other activities (flour, paper, salt, sugar, and cardboard boxes).

4. Agricultural Price Policy

The previous government's economic policy in the agricultural sector was one of "food security," inward development, state intervention in the price system, the producer state, and the transfer of income to producers through high prices and various kinds of subsidies. That policy has not yielded the desired result. The sector's production has grown at a low rate. Moreover, the policy has generated high prices for agricultural products, as can be seen from table 2.

Table 2: Domestic and International Prices of Certain Agricultural Products in Dollars, 1987

Item	Measurement unit	Domestic price	International price	Change (%)
	(1)	(2)	(3)	(2/3)
Unhulled rice[1]	quintal	11.75	7.20	63.2
Sugar[1,2]	pound	0.22	0.15	46.7
Hulled coffee[1]	quintal	85.68	112.29	-23.7
Shrimp[1]	net kilogram	9.52	11.44	-16.8
Onions[1]	pound	0.36	0.11	227.3
Eggs[3]	dozen	1.26	0.78	61.5
Chicken[3]	pound	0.96	0.78	23.1
Lettuce[3]	pound	0.67	0.60	11.7
Bulk corn[1]	quintal	13.06	3.43	280.8
Potatoes[3]	pound	0.36	0.07	414.3
Tobacco[1]	pound	1.96	1.57	24.8
Tomatoes[1]	pound	0.36-0.50	0.07	414.0-614.0
Beef[3]	pound	1.46	2.42	-39.7
Pork[3]	pound	1.90	1.88	1.1
Bread[3]	pound	—	0.54	—
Milk[3]	half gallon	—	1.14	—

1. Domestic price received by agricultural producer.

2. 1990 price. The domestic price refers to crystallized sugar.

3. Consumer price in Panama City and the United States.

Sources: Statistical Abstract of the United States, 1987 and 1989. Commodity Price Data, 17 June 1989. IMF International Financial Statistics. Directorate of Statistics and Census, Office of the Comptroller General of the Republic: "Prices Received by Agricultural Producers, 1987." Ministry of Planning and Economic Policy, basic basket.

Another unfavorable effect of the high price of certain agricultural products is that the price of the land used is increased artificially, given the opportunities for earning a high return from that land. High land prices influence the cost of producing other products such as livestock and result in the best land being used for the production of subsidized or highly protected products. The high price of agricultural products influences the operating costs of firms producing canned or processed foods, since they use those products as inputs. That, in turn, reduces or eliminates the possibility of competing with similar imported products.

The current mechanism of incentives distorts relative prices and alters the profitability of the various activities

within the agricultural sector. The result is that we produce items which we ought to import or we produce more than it is possible for us to produce efficiently. And that is a form of inefficiency, since it means that resources are being used in a suboptimal manner.

It is obvious and acknowledged that a country should specialize in those products for which it has comparative advantages.

Normally, this is interpreted to mean specialization in exports. In Panama's case, it would mean exports of bananas, shrimp, items produced by labor-intensive means, and especially services related to our geographic location. Comparative advantage should also be considered in relation to imports: which products should we not produce, but import, or at least import in part, since we lack the necessary advantage for producing enough to meet the entire demand? This applies in particular to the agricultural sector.

The system was designed to achieve self-sufficiency in such basic cereals as rice and corn. The production of sugarcane, potatoes, onions, chicken, and eggs was also promoted. That policy has led to the production of more than we need, thus reducing the efficiency of the economy. It should be pointed out that stockraising was not promoted.

The price-setting mechanism consisted of negotiations between the Ministry of Agricultural Development and the producers. In the case of some products such as rice, unit costs were calculated in determining the price. The yields used in those calculations were an average of the high yields obtained by large mechanized producers and the low yields obtained by other producers. The result was a relatively low average yield and a consequent high price. That price represents a subsidy and a transfer to the more efficient producers, who produce at much lower cost, and it also finances the existence of inefficient producers. That, in turn, creates a certain relative inefficiency, considering that it justifies the excessive use of such inputs as fertilizer, herbicides, and fungicides.

Corn is to the agricultural sector what building materials are to the industrial sector. Corn is used basically as animal feed, so its high price increases the cost of raising chickens and hogs. The resulting higher production costs and prices reduce demand, leading to a decline in production and potential employment in that activity. In this case, the harm done to animal production is greater than the benefit gained from producing corn.

The price of sugar is much higher here than on the world market—even higher than its price in the protected markets of the United States. The high local prices are the result of an agreement reached in the early 1980's, when the price of sugar on the free market was higher than the local price. Later, the price declined, but the local price was not adjusted. High sugar prices have repercussions on other activities and affect the production of candy, pills, corn liquor, cookies, and so on.

Salt is another product that is much higher priced here than on the international market. It is used as an input for other activities such as stockraising, leather tanning, and food processing. The use of bulk salt in production activities should be allowed, with only salt for human consumption being protected.

The zebu is the animal best adapted to our environment, but its milk yield is low. In some areas of Panama, where the climate is more temperate, there are herds of cattle with higher milk yields, but the land they use is relatively high in value. The commercial dairy industry, which tends to be specialized, requires a high level of protection. This is one instance where production is planned and where we do not have comparative advantages.

The policy in the agricultural sector has discriminated against exports. Indirectly, any tax on imports is a tax on exports (this is what is meant by protecting the domestic market). The greater profitability of protected activities displaces activities with a potential for exports. Directly, the anti-export bias is exhibited in the bans and quotas applied to coffee, fishmeal, leather, and, occasionally, meat. The following have been other forms of anti-export bias:

- A rule prohibiting the banana company from loading its containers at the plantation itself.
- Support for the banana union has increased the cost of manpower far above its opportunity cost.
- Stockraising operations involve high input costs due to the price paid for salt and barbed wire and losses due to inefficiency and the monopoly on slaughtering.
- There have been restrictions on the export of livestock.

The industry regards the demand satisfied by imports as being potential demand that can be used to increase the incomes of farmers. That explains the policy for import substitution. Satisfying that demand domestically thanks to protection involving high prices constitutes a transfer to the producers and involves a tax on the consumer. In the case of agricultural products that are widely consumed, that transfer is regressive from the standpoint of the distribution of income.

The new policy is oriented toward the operation of a market system. State interference in demand, supply, and the productive sector will be minimized. Product prices will be established without intervention and tied to prices on the international market. We expect to wind up with a system in which protection, which will be at a low level, will be in the form of tariffs, with quotas and bans on imports or exports being eliminated. This program will be implemented over a period of three years.

A new price policy for encouraging activities at which we are efficient would mean aligning domestic prices more closely with international prices. This would eliminate

negotiated prices and the use of quotas or bans on imports, with the result that prices would be determined by market forces.

The agricultural sector would probably adjust more easily than the industrial sector to the transfer of resources to new products. The differences with respect to inputs, capital, equipment, and technology are not limiting. There are good export opportunities that would be more attractive, one of them being the expansion of stockraising.

The program involving agricultural policy will be aimed at achieving the following specific objectives over a period of time, but a start in that direction will begin immediately:

- (i) Freedom to import agricultural products upon payment of a customs duty, with all quantitative controls on imports being eliminated.
- (ii)Elimination of the mechanisms for negotiated prices.
- (iii) Reduced protection for potatoes, sugar, rice, salt, tomatoes, and so on, with prices being brought closer to those in the world market. A diminishing tax on imports may be established, with its levels to be negotiated.
- (iv) Freedom to export and import meat, fine cuts of meat, chicken, and leather.
- (v) An end to the practices restricting competition in the sale of agricultural inputs (fertilizer).
- (vi) Elimination of the restriction on loading into containers at the banana company.
- (vii) Permission to import coarse salt for livestock.

The other element is the state's participation in the sector. The state has participated in activities for the production of products and seed, imports, selling, marketing, financing, and equipment leasing. The state's institutional participation in the agricultural sector was partly reduced before, and that process must be completed by transferring some of the remaining activities to the private sector. It has already been announced that the IMA [expansion unknown] will abandon its retail marketing activities and the subsidized sale of "food baskets." Steps will also be taken to promote a system for the transfer of technology to individual producers instead of focusing exclusively on small organized producer groups.

What is probably needed is a study concerning the reorganization of the sector, with the state's functions being redefined. The sector has two primary responsibilities:

- (i) The sector viewed as a complex of production activities. From that standpoint, there is a need for research, sanitation, technology transfer, assistance, and information.
- (ii) The sector as a social entity related to low-income groups who produce to subsist. In this case, a policy is needed for improving incomes and creating other productive activities.

There is a need to reconsider the operations of the Agricultural Development Bank, which has neither the operational experience nor the guidance it needs for functioning as a bank and collecting its loans. This is a common experience in Latin American countries. One alternative is to transfer its functions to the National Bank, which already has experience and is prepared to handle loans in the social sector and the agricultural sector. Another possibility would be to make more use of commercial loans from the private banks. In the long run, more efficient management of financial resources will serve to produce a greater volume of credit for the sector.

5. Trade Policy

Besides the measures for amending the protective customs tariffs now in effect in the industrial and agricultural areas, it is recommended that a trade policy better integrated with a market system be adopted.

The quantitative restrictions on international trade—the bans or quotas affecting imports or exports—are an inefficient instrument of trade policy. The export quotas on coffee, fishmeal, and leather and the import quotas on agricultural products have created privileges for certain individuals or activities and represent an additional distortion of protection itself. In those cases where there is a shortfall in production, imports should be unregulated (subject to tax) or, if a quota is used, those imports should be sold publicly, but the activities of importers should not be restricted.

The system of import duties should be simplified by revising specific tariffs to bring them into line with ad valorem taxes. Also as part of the trade policy, overall import ariffs should be adopted with no exceptions.

- 1. A minimum tariff of 10 percent (including the 7.5-percent consular surcharge) on tourist goods, some staple items, and some goods which it is desirable to favor (such as personal computers, for reasons having to do with technology transfer).
- 2. A general tariff of 20 percent on all other products, including inputs and capital goods.
- 3. A maximum protective tariff on industrial and agricultural goods.
- 4. Elimination of the import bans on nonagricultural items such as that on prefabricated houses, the tax discrimination against used automobiles, and the excessive taxes on imports of luxury automobiles and fuel.
- 5. A lowering of the relatively high taxes on certain products such as fuel and new and used automobiles.

6. Reforms to Tax System

As far as the tax system is concerned, thinking and practice changed considerably during the 1980's as a result of important and successful reforms in developed countries. The concept with the greatest impact involved the recognition that excessive taxation, especially on income from capital, may have the effect of reducing

levels of production and growth. The main concepts concerning a reform of tax methods are these:

- a) The system should be made simpler, without a multiplicity of taxes.
- b) The principle that a steeply progressive income tax is neither advantageous nor realistic should be accepted.
- c) The double taxation of investment income should be reduced or eliminated.
- d) Taxes should not be skewed against foreign trade.
- e) Distortions in relative prices should not be introduced.

Reforms along those lines have already been implemented in several Latin American countries.

A complete revision of the tax system is a necessary component of the plan for economic restructuring. Some tax incentives provide a way of compensating for the existence of distortions. For example, the interest rates on construction compensate for high construction costs, which in turn are the result of various distortions. Tax credit certificates represent a compensation for exporters to make them more competitive. In Panama, there has been excessive use of tax "incentives" favoring certain sectors to the detriment of others.

The excessive tax on gasoline and automobiles is a distortion that must be eliminated. It needs to be pointed out that the ITBM [general sales tax] should be extended to cover services as well.

Modern methods and procedures for tax administration make larger and more efficient tax collections possible. Among the existing systems, we can mention the Single Taxpayer Registry, the system for handling data bases, computerized auditing, and the "sales invoice lottery." Those procedures can make tax methods more equitable and economically more efficient.

7. Elimination of Other Distortions

Housing Construction

The housing construction industry reflects the distortions in other markets as well as some of its own. Table 3 provides information on the cost of materials and manpower and the cost of building a house in Panama. It must also be said that urban development regulations create additional costs, seeing that over 30 percent of a building site cannot be used for actual construction and that urban development requirements involve high costs. This increases the cost of development by from 12 to 15 balboas per square meter of useful area and the cost of the land by from 10 to 15 balboas per meter of useful area. Lastly, building codes have also contributed to higher costs. Added to this is the relative scarcity of urban land owing to the fact that the former Canal Zone areas reverting to Panama have not been incorporated into that urban land.

The high cost of construction provides a clear example of how each sector passes its high prices on to others and how industry, in turn, passes them on to the consumer (the buyer) or the government. Because of those conditions, it becomes necessary to protect and subsidize that activity, and this is done through interest subsidies, an example being the system of preferential interest rates. Construction activity itself is also protected from external competition. This is done by banning imports of prefabricated housing.

Table 3: Selected Indicators of Construction Costs

Cost of selected building materials, 1983 (in balboas)

Item	Colombia	Panama	
Gray cement	2.48	5.32	
Red bricks	62.80	254.00	
Iron rod	0.48	0.56	
No 8 black wire	0.80	0.55	
2.5" nails	1.15	0.89	
Galvanized pipe	—	20.00	
White tiles	4.26	14.95	
Electrical wire	0.09	.29	
Synthetic enamel	3.90	5.12	
Inexpensive varnish	3.27	3.40	
Chrome faucet	—	6.30	
Low-tank water closet	—	129.30	

Index of cost of materials (average index = 1.000)

Country	Index	Country	Index
Brazil	0.515	Chile	0.985

Table 3: Selected Indicators of Construction Costs (Continued)

Cost of selected building materials, 1983 (in balboas)

Paraguay	0.549	Uruguay	1.042
Guatemala	0.643	Costa Rica	1.370
Colombia	0.752	Panama	2.027

Cost of manpower

Occupation	Basis	Panama	Costa Rica
Bricklayer	per hour	1.90	0.83
Helper	per hour	1.52	0.69
Carpenter	per hour	2.00	0.90
Social benefits	percent	.70	0.45

Direct cost of building a model home

Item	Panama	Costa Rica	Percent
Materials	5,928.02	3,743.36	36.7
Subcontracting:	1,850.00	931.03	49.7
Plumbing	875.00	517.74	
Electrical	975 00	413.79	
Labor:	4,017.56	1,575.01	70.8
Wages	2,363.28	1,086.21	
Benefits	1,654.29	488.80	
Total direct cost	11,795.58	6,249.40	47.0

Source: INDESA [expansion unknown], Study of the Housing Market in Panama.

The high price of housing construction means that the same volume of financing results in a substantially lower volume of construction. The result is fewer houses or smaller houses. Because of that, there is also less employment, a reflection of inefficiency in the economic system considering that national resources are underutilized even in boom periods, given the industry's obvious capacity to expand and absorb labor in the presence of underutilized manpower.

High manpower costs mean that the industry is capital intensive and uses the most modern equipment. Despite that, the construction industry is one which has the potential to help solve our employment problems. In Colombia, the construction industry is labor intensive and is even partly an informal industry.

Lastly, the economic distortion has a social effect. The low-income sectors of the population do not have access to suitable housing, and this has led to the development of shantytowns. The various policies and rules have created a contradiction between the social objective of providing suitable housing, the economic objective of employment, and the political objective of protecting producers and certain groups of workers.

This is a clear example of how the various distortions create an inefficient system: construction activity is reduced, there is less employment, and the social need to provide suitable housing is not met. Reducing construction costs would provide a real answer to the question of how to solve national problems.

In today's circumstances, reducing construction costs is an essential step toward creating an efficient production system and promoting the recovery of economic activity. Reducing costs would make it possible to incorporate the actual demand existing among low-income groups, which make up the social group in which potential demand exists right now. High construction costs also have an indirect effect on the production costs of all firms, making it more difficult to compete in international markets.

A special situation exists in the construction industry. In Panama City, the industry is operating at less than 15 percent of its previous level. There is no demand for labor, and until activity returns to its normal level, the real wage as determined by supply and demand will probably be far below the wage stipulated by contract.

The workers have agreed to amend their labor contract with the Panamanian Chamber of Construction and accepted a wage lower than that called for by contract. The minimum wage in construction work has dropped from 1.67 balboas to 1.25 balboas per hour. But even that is higher than the pay in industry in general, where the minimum wage is 78 centesimos per hour. That situation is not compatible with the current existence of massive unemployment in this sector. In view of the high rate of unemployment, it is recommended that there be further deregulation of labor relations, including the possibility of temporarily suspending enforcement of the

collective bargaining contract or permitting employment not covered by that contract.

Rental Housing

Price control has been established in the rental housing market, a situation that is prejudicial to landlords, especially in times of inflation. Eviction procedures have also been made more difficult. This has effectively eliminated the private sector's participation in the construction of low-rent housing. Landlords have also stopped maintaining low-rent housing, and the result has been a situation worse than the one the state was trying to correct. Those regulations represent exaggerated state intervention in the operation of the market as well as restrictions on the operation of the private sector.

The market for new housing must be completely deregulated and an effective eviction procedure set up. As far as other housing is concerned, it is possible to establish a process permitting gradual price increases. That would send a suitable signal to the market, but it must be recognized that experience in other countries, among them the United States, shows that the distortion created in the housing market by price controls is very difficult or impossible to correct.

Cost of Medicine

The marketing of medicines is distorted by a series of rules, regulations, industrial protection, extension of patent rights, agreements, procedures, and trade practices. The result of such a system is that prices are markedly higher than the prices paid for the same medicines in the United States. The restrictions on medicines that can be sold within the country also restrict competition in this sector. Lastly, the widespread use of Central American products results in a lowering of the quality of medicinal products.

8. Modernization of Transportation System

The advantage of Panama's geographic location is that it permits exports connected with the international transportation system. The Colon Free Zone and the transshipment of cargo are an example of this. To a large extent, that advantage is lost if domestic freight handling costs are very high, as is in fact the case.

Gasoline costs 1.98 balboas, largely because of taxes. That is more than twice the price in the United States. In the mid-1980's, the freight rate by truck in Panama was estimated at 19.85 cents per kilometer-ton, compared to 10.02 cents in the United States and from eight to nine cents in the Latin American countries. In 1984, the cost of transshipping a container in Panama was 35 percent higher than in Jamaica if one used the port of Cristobal and twice that much if one used the port of Balboa. The situation was gotten worse since then.

We have already seen that the petroleum policy has resulted in excessive surcharges on transportation due to inefficiencies in production and taxes on fuel, all of which affects transportation costs.

Distortions in the freight transportation system have led to high costs due to restrictions on competition. For instance, only one group of carriers can operate in the Colon Free Zone, and the firms there are not allowed to handle their own cargo. The result is a cartel and higher costs. With a view to the present and future expansion of assembly plants in the Colon area and their importance to the recovery and development of the economy, those restrictions need to be eliminated.

The most important distortions have been these:

- (i)The existence of a firm that charged a fee for ship security and information, although its fee was in fact a private tax.
- (ii) Restrictions on exports from the free zone by way of the port of Bahia Las Minas.
- (iii) The existence of a cartel of freight carriers to and from the Colon Free Zone (and also to and from Chiriqui).
- (iv) High costs and inefficiencies at the ports of Balboa and Cristobal.
- (v) Noncompetitive railroad rates and deteriorating service.
- (vi) The problem of the effect on the cost of road transportation from Panama City to Colon of the route's lack of capacity and its poor condition.
- (vii) High fuel taxes.

The high costs and inefficiencies of port operations affect the shipping companies' costs, and this is reflected in their ocean freight rates.

Several reforms have already been carried out, among them the closing of the Transit, Inc. firm. All restrictions on carriers doing freight business in the Colon Free Zone will soon be eliminated, as will the restrictions on exports through the port of Bahia Las Minas. The inefficiency costs in the ports will be corrected by modernizing the ports. With respect to petroleum, there is an urgent need to revise the purchase contract signed by the government with Panama Refinery, Inc. in February 1984 as a replaceement for the Coral Gable Agreement, and to adopt a system of Platts prices plus transportation plus protection for the local added value, as was the case before 1980. The existing cross subsidy for petroleum products is being revised.

An important aspect of the modernization of the transportation sector is the development of the Port Center project. The basic idea is that Panama will become a container transshipment center. A ship sailing from Yokohama to New York could unload containers in Panama to be transshipped and sent to South America and then pick up containers for delivery to New York. Transshipment can also be used on routes from Europe to South America or any routes passing through the canal.

Panama's advantage is obvious. Ships passing through the canal do not lose time waiting while transshipment is taking place. Containers can be transshipped by rail or road from one coast to the other, thus increasing the opportunities for trade. To be profitable, the project needs to operate efficiently and at low cost. The government has already announced the modernization of the ports, the addition of international operators, and the promotion of this project on a priority basis.

The investment project will be carried out in several phases. First, the existing terminals will be improved by modernizing freight handling in the open storage areas with a new gantry crane in Balboa. Later, a new terminal will be built in the Cristobal area with three berths and a "straddle carrier" container handling system. Lastly, the port of Balboa will be expanded. The total investment will exceed 200 million balboas and provide the capacity for transshipping over 800,000 BTU's (small containers).

It is clear that along with development of the Port Center, economic opportunities of various kinds will be created:

- a) For reducing the high costs in the local ports, something that would benefit the Colon Free Zone, the Multisectoral Export Processing Zones, and local exporters.
- b) Possibilities for expanding the role of commercial middleman with the countries in the Central American region and the Caribbean.
- c) Possibilities related to the repair, maintenance, and leasing of containers.

9. Price Formation Mechanisms

The price system in Panama is not the result of free interplay among the market forces, the mechanisms of supply and demand, or a system of competition among local firms together with international producers. In most cases, there has been intervention in the price forming mechanisms or even direct price intervention.

In Panama, there is every kind of distortion in the setting of prices:

- Negotiated prices in the case of agricultural products.
- Tripartite agreements in the case of labor negotiations.
- Unregulated prices on some agricultural products, but with import bans or quotas or high protective tariffs.
- Controlled prices on industrial products, but without competition; the prices validate an oligopolistic system.
- The setting of minimum wages.
- Cross subsidization of utility rates.
- The Price Control Office.
- Rent control.
- Monopolistic utility rates.
- Subsidized interest rates for agriculture and housing.
- Surcharges on interest charged on commercial loans and personal or consumer loans.

That arrangement of the price formation mechanisms in Panama reflects the distortions in different sectors, but is, of itself and in its turn, a mechanism for distortion.

The price control system and the mechanisms for negotiated prices interfere with the operation of the market. The system is justifiable as a mechanism for preventing abuses when there is a production system protected by import quotas or bans and there are monopolistic or oligopolistic local firms. But the price control system has not fulfilled its purpose. What a price control system based on cost plus a margin of profit does is confirm the prices set by the cartels or oligopolies. Despite public statements to the effect that the purpose is to protect the consumer, the price of protected products in Panama—examples being foodstuffs, housing, medicines, and other essential items—is much higher than the corresponding international price. This is a unique situation in a developing country.

In Panama, imported products, including luxury items, are obtained at international prices. This applies to household electrical appliances, jewelry, watches, and automobiles. In Latin America, on the other hand, those same products are relatively expensive. But foodstuffs, medicines, housing, and public utilities are much more expensive in Panama than in the rest of the world, and again, this situation differs from that in the other developing countries.

Why Is Panama Expensive?

This document presents in condensed form the reasons explaining why Panama is expensive. To begin with, the high price of foodstuffs and industrial products is the result of the protectionist policy. In some cases, high prices also reflect the existence of monopolies. In other cases, high prices are the result of inefficient production sheltered by protectionist policies.

The inefficiency that results from steering production toward products for which we do not have comparative advantages, combined with the existence of legal rules restricting the operation of the private sector and a market economy, also contributes to high prices. The low real productivity of public-sector activities and their overspending are reflected in high rates and taxes. On top of that, surcharges are levied to finance cross subsidies or social programs.

Other restrictions such as the Labor Code also contribute to high production costs. Finally, the high price of essential and protected goods is reflected in high wages, which, in turn, contributes to high production costs in all activities.

Food products are common consumer goods (wage goods); their high price affects the level of equilibrium wages and makes higher wages in dollars necessary to preserve the same level of real wages. In turn, the high cost of local manpower affects production costs in all

activities and reduces the ability to compete internationally. On the other hand, one cannot promote the establishment of export areas where the workers would earn international wages and then have to return to the local economy and pay high prices for basic food products.

The price system in Panama reflects the distortions in various sectors of the economy and, in fact, transfers those distortions to the entire production system. As a result, the price system itself becomes another form of distortion. The situation described above creates a self-sustained mechanism for intervention in the various markets. High prices for agricultural products are reflected in the high cost of inputs for agroindustry, and this affects its production costs. That situation makes it necessary to grant local industry protection from efficient foreign producers. Given the small size of the market, that protection of industry creates a monopolistic-oligopolistic system.

The distortions as described produce inefficiency and high domestic prices, and that, in turn, leads to the existence of high wages (in dollars) to compensate the workers for high prices. This is immediately reflected in higher production costs for the agricultural and industrial sectors, thus reducing their competitiveness and serving to justify more protection from imported products.

By making local production more expensive, transferring the effects of the protection systems and distortions to the price system rules out the possibility of nontraditional exports. That being the case, we lose exports in which we could be using our abundant resource: manpower. This means less production and the use of resources for activities in which there is less real productivity.

In a system of market prices, which is what we hope to have in Panama, it is international prices which determine the price of local products, with the result that there is no need for a price control mechanism like the one which has served—contrary to expectations—to produce and maintain high prices and to validate cartel prices.

Programs To Modernize the State

According to the previous government's development philosophy, the state was an integral and essential part of the modernization model. The activist state—as entrepreneur, producer, intervening agent, and economic developer—had the social responsibility for improving incomes, absorbing labor, and generating growth, and it therefore set up a number of state-owned firms and entities.

The state showed itself to be an inefficient entrepreneur. Serious difficulties were encountered by the big investment projects, including the Bayano and Fortuna hydroelectric projects, Tocumen Airport, the port of Vacamonte, and Contadora. Other projects were carried out with no economic justification or at excessive cost, examples being the sugarmills, the planned bridge over the canal (Van Dam), and the Chiriqui-Bocas highway. State-owned firms experienced serious problems with efficiency—particularly the Water Resources and Electrification Institute (IRHE), the National Port Authority, the La Victoria Sugar Corporation, the agricultural enterprises, and the development banks (Cofina [National Finance Corporation], the BHN [National Mortgage Bank], and the BDA [Agricultural Development Bank]).

Some of the public sector's problems with efficiency are due to the mixing of different objectives—for example, the mixing of social objectives such as employment and political objectives, which interfere with the entity's operations—and, lastly, the problems of corruption.

The new policy is completely different. The state will no longer take responsibility for solving all of society's problems directly. State involvement in production will be reduced. Moreover, it is necessary to modernize and reform those entities and firms which continue to belong to the state, the purpose being to make them more efficient.

1. Privatization Program

The privatization program is another strategic component of the economic policy. The objectives of this program must be to:

- (i) Reduce the number of government enterprises.
- (ii) Transfer public-sector activities to the private sector.
- (iii) Sell certain firms or assets.

It would also be possible to grant operating concessions for some activities, transfer the running of certain organizations to management boards, or establish greater local participation (by the municipalities). First, it will be necessary to determine the main outlines of the program: what should be privatized by sale or some other means, how should it be done, who will do it, what part will foreign investment play, what kind of technical assistance will be received, and who will provide it? We expect to have technical assistance on those matters.

The following will be considered in connection with privatization:

- (i) Unprofitable firms.
- (ii) Nonstrategic activities.
- (iii) Activities that are being carried on inefficiently.
- (iv) The possibility of partial privatization.
- (v) Activities that might be managed by management boards.

Some of the activities which could be privatized are the La Victoria Sugar Corporation (CALV), the Bayano Cement Company, Chiriqui Citrus Fruits, the Panama Railroad, Air Panama, and the Bayano Corporation. As regards the Water Resources and Electrification Institute (IRHE) and the National Telecommunications Institute (Intel), there exists the option of allowing the private

sector to play a greater role in those sectors. The alternatives of contracting with the private sector for services, partial privatization, or complete privatization will be considered in the studies concerning the operation of the public sector.

Besides the firms, there are activities that can be transferred to the private sector in the form of service contracts or concessions. One such activity is the Metropolitan Trash Collection Directorate (Dima). The drinking water system, the operation of which is currently inefficient and expensive (it collects 40 percent of the value it produces), can be operated by the private sector. Its privatization can include agreements on how to distribute the cost of socially oriented projects.

Some activities could be managed partly or completely by a management board, with the government providing overall financing. This is currently being done successfully in the case of the Children's Hospital, Children's Town, and the National Red Cross. Thought could be given to applying the same system to certain functions of the Panamanian Special Qualification Institute (IPHE), the National Sports Institute (Inde), and the National Culture Institute (Inac).

Table 4: Summary of Alternatives To Be Considered in Connection With the Organization of State-Owned Firms and Entities

Firms with potential for sale:
Air Panama
Panama Railroad
Bayano State Cement Company
Chiriqui Citrus Fruits Bayano Integrated Development Corporation
Bocas del Toro Banana Corporation
La Victoria Sugar Corporation
Agricultural Insurance Institute
Activities that can be run by the private sector:
Panamanian Tourism Institute (Ipat)
Panamanian Foreign Trade Institute (IPCE) Metropolitan Trash Collection Directorate (Dima)
Panamanian Autonomous Institute of Cooperatives (Ipacoop)
Panamanian Special Qualification Institute (IPHE)
To be integrated with other institutions:
Agricultural Development Bank (BDA)
National Mortgage Bank (BHN)
Sale of assets or facilities:
Reverted areas
Paitilla Airport
IMA facilities
Ipat hotels and facilities
Complex enterprises with multiple solutions:
Water Resources and Electrification Institute (IRHE)
National Telecommunications Institute (Intel)
National Port Authority (APN)
Panamanian Culture Institute (Inac)
National Waterworks and Sewer Systems Institute (IDAAN)

The vocational training program, which is operated partly by Inaforp [expansion unknown] and partly through subsidies to the unions, needs to be completely redesigned. There must be much greater integration with the production sector or the firms. Perhaps in this case we can obtain advice in redesigning the operation. In all these cases, the state provides a subsidy for the operations but does not interfere in them.

Tourist promotion activities can be better handled if they are carried out by the private sector directly. A successful example of tourist promotion is Mexico, where that activity is handled by an institution in the private sector with funds from the public sector. The Ipat should operate in that way, and its facilities and activities for domestic tourism can be sold or operated by the Ministry of Commerce and Industry. The original idea

for the Investment Promotion Office—as well as the Export Promotion Institute—was that it would be a private-sector organization, as has been the case in the other countries of the region. The same can be said of the Colon Free Zone. In other countries (the Dominican Republic), a great many of the industrial processing zones are run by the private sector. The government may grant concessions to run those zones or it may sell the facilities.

There are organizations and activities which should be closed and their functions transferred to other government organizations. For example, Cofina and the BDA should be transferred to the National Bank, and the National Mortgage Bank (BHN) should perhaps be transferred to the Savings Bank. The sale of assets can also be included in this program. The sale of the Taboga Hotel and the Washington Hotel in Colon has already been announced. The IMA owns silos, mills, and a chicken processing plant that can be sold. The National Slaughterhouse and the equipment at the Felipillo Sugarmill should be closed or sold. The Paitilla Airport should also be closed and its land sold.

Urban development of the reverted areas should be carried out as soon as it is expedient. This cannot be done by the government because of the lack of funds. It would be a special program. There are various alternatives involving mixed-capital projects, projects for low-income groups, and private projects for the development of commercial or residential areas. Given the difficulties involved in obtaining financing for housing at the moment, the program for selling land should be considered, as should the possibility of partial sales, so as to keep the supply from becoming greater than what the market can absorb.

It is noted that the privatization program, and particularly the sale of firms, depends on the economic system's "rules of the game." These include the level of industrial protection, the agricultural price policy, and income tax rates. Clarifying those important features will affect expectations of future income and, consequently, the present value of the activity to be bought (or sold). Because of that, an effective privatization program requires that those rules be stated beforehand and that the national banking system be functioning normally.

The mechanism for transferring those assets must guarantee a maximum return for the state (which is the owner), and for that reason, the state's preferred approach is competitive bidding or the sale of shares on the market with participation by foreign and local investors. Moreover, the rules and forms of compensation for present employees must be made clear. Finally, the new firms must not have monopolistic profits.

2. Program To Improve Efficiency of State Firms

The state-owned firms have turned into a mechanism for keeping employment up and into organizations managed for political ends. By definition, such a policy generates a high degree of inefficiency that is passed on to the private sector through high fees and rates, and that, in turn, affects production costs.

The next step is the implementation in the near future of a policy for increasing efficiency and productivity. The specific details of this program remain to be worked out, and the program may be part of a package of technical assistance. The important points of the program will be as follows:

- (i) The establishment of efficiency goals and of mechanisms for achieving that efficiency.
- (ii) Incorporation of the private sector into activities currently engaged in by the state-owned firms.
- (iii) The establishment of legal standards providing the said firms with flexibility and laying down the rules of the game they must follow.
- (iv) Revision of the tariff system and follow-up mechanisms.

This program will focus on the following entities: the Water Resources and Electrification Institute (IRHE), the National Telecommunications Institute (Intel), the Social Security Fund (CSS), the National Waterworks and Sewer Systems Institute (IDAAN), the National Port Authority (APN), and the firms in the agricultural sector.

The economic problems of the state-owned firms are due to the low return on inputs (capital, labor, and materials) and the high cost of those inputs (wages).

As an example, we can mention the case of the IRHE. At first (in 1983), the IRHE's rates were 13 cents per kilowatt-hour for residential consumers and 12 cents for commercial users, at a time when the average rate in the United States was 7.2 cents. For industrial users, the rate was 11 cents in Panama and five cents in the United States. In 1985, the IRHE's employees earned an average of 753 balboas per month, or 80 percent more than the rest of the public sector and even 70 percent more than the average for industrial firms with five or more employees.

The IRHE has too many employees and excessive wage costs. The cost of personnel in 1987 totaled 75 million balboas. Comparison with a group of small U.S. firms (having sales of between 200 million and 500 million balboas) shows us the following:

IRHE Compared to U.S. Firms

Indicator	IRHE	U.S. firms
Wages/sales	27%	14%
Wages/costs (e.g., fuel)	31%	20%
Wages/kilowatts billed	3.24 balboas	0.77 balboas
Wages per customer	280 balboas	183 balboas

It must be remembered that the IRHE's rates are much higher and its wage level much lower.

Because of that, the above figures seem to indicate excess spending of about 50 percent, although the differences in

the organization of the firm need to be taken into account. The additional cost of personnel is due to overmanning and to the wage levels, which are relative high in relation to productivity.

The institution's productivity problems can be seen by comparing changes in the employment level and in the cost per kilowatt during the period from 1979 to 1987. In principle, there should have been automatic gains in productivity, considering that the institution brought the Fortuna hydroelectric plant (which has a high output per unit of employment) on line and that consumption per customer increased sharply (by 12 percent annually). But in fact, that is not what happened: the increases in potential productivity were used to increase employment. For instance, total employment increased by 3.4 percent annually, and operational employment rose by 4 percent annually. The loss of productivity is noted more clearly in the case of administrative personnel, whose number increased by 4.1 percent while the rest of the institution's personnel increased by only 3.6 percent. The IRHE also has problems with slow payers and with a loss of energy due to failure to bill.

In the IDAAN's case, the lack of efficiency is demonstrated by the amount of water lost in the system and the amount that is billed but not collected. Currently about 40 percent of the water produced is lost, and 30 percent of the billing is not collected. The number of employees per 1,000 connections is about 15, whereas the corresponding number in other places is less than nine. The real unit cost per connection has also increased.

The National Port Authority is another agency that has had serious problems with efficiency, even after modernizing its facilities to some extent. As was mentioned earlier, it was estimated in the mid-1980's that its costs were 35 percent higher than those in Jamaica, and the situation has grown considerably worse in recent years.

Intel can be regarded as one of the best state-owned enteprises, but it is not free of problems having to do with excess personnel and excessive costs. The communications industry has benefited from extraordinary technological progress since the end of the 1960's. There have been advances in capacity and reductions in the cost of operating exchanges, optical fibers and computerized processing have been introduced, and so on. The result in the United States has been lower telecommunications costs and rates, but the same has not happened in Panama, where the rates rose sharply in 1976, although they have since remained at those levels. The number of employees per line is high and has increased, as has the cost per service unit in real terms. In mid-1983, the rates for calls from Panama to the United States were 20 percent higher than those for calls from the United States to Panama, and the rates to Europe were several times higher in Panama.

Assuming that the above firms are not privatized or that their privatization does not occur in the immediate future, programs and agreements setting goals for efficiency and costs and making compliance compulsory will have to be established. Achievement of those goals may be the prior condition for authorization to increase wages or grant bonuses. The goals in question would include the following: standards for profit margins, fulfillment of requirements for reducing costs and overtime pay, increased production based on number of personnel, efficiency in carrying out the investment or maintenance program, and measures for physical productivity by type of activity. This would be one way of establishing criteria of efficiency and pushing the firm to be more productive.

Finally, specific programs for improving the efficiency of those firms must be established. The IRHE has a project, financed by the Inter-American Development Bank, for its institutional strengthening that includes the purchase of special equipment for detecting fraud, revision of its computer system, the establishment of a management control system, improvements to financial and accounting controls, and the training of executives. In the case of the IDAAN, there is a pilot plan for reducing water losses, and it will be expanded to include the installation of meters within the system and on customers' premises.

3. Opening up Public Sector's Markets

In the present system, there are barriers preventing private enterprise from competing or participating in activities in the sector dominated by state-owned enterprises. For one thing, state-owned enterprises are defined by law as being monopolies and operate as such. For another, those same state-owned enterprises—for bureaucratic and political reasons—engage in activities which would ordinarily be contracted out to third parties, and they do so at costs higher than those in the market. It is advisable for the state-owned enterprises to operate in a more competitive system as regards both the market for their products and the market for their inputs.

The activities to be assigned to state-owned enterprises as monopolies—if they are going to continue to operate as such—must be redefined. The first step is to allow private activity in areas now reserved exclusively for state-run enterprise. For example, private firms could be allowed to produce energy for sale to the state-owned enterprise. The operation of electricity supply systems in small towns could be turned over to private firms under the IRHE's supervision. Also needed is a redefinition of activities to be engaged in by the private sector, an example being concessions to provide sales, collection, and distribution services in the city's shantytowns. Lastly, we need to decide whether the IRHE should continue as a production and distribution entity or specialize in the production of hydroelectric power.

In the case of Intel, the private sector must be allowed to participate in certain activities. It is clear that the state reserves for itself the right to retain its participation in

the monopoly profit or pure rent generated by this activity. A system providing more competition and efficiency can be achieved if local and international firms are given the opportunity to participate in competitive private activities. Among the activities that might be opened up to competition are the following:

- (i) Bank data transmission services (the Swift system of banking cooperatives, for example).
- (ii) Competition in international cable and telephone services.
- (iii) Computer-to-computer data transmission services.
- (iv) Opening up the telecommunications sector to more competition and lifting restrictions on activity by private firms.

Unlike private firms, public enterprises have incorporated as many activities as possible into their operations. For example, the IRHE clears the underbrush from around its power lines, and maintenance operations on transportation equipment are carried out internally at high cost. In some cases, the enterprises operate security services that it would be better to contract out. There will be a program for incorporating the private sector into the sale of services to those enterprises.

There are problems with rate structure in the state-owned enterprises.

In general, rates have been set in such a way as to maximize the enterprise's revenues using the system of cost plus a profit percentage. The result is the financing of inefficiency through high prices.

In several cases, those rates have the features of a tax-subsidy (the so-called cross subsidy), in which a certain type of consumption is subsidized at the expense of all other consumers. This situation exists in connection with electricity, water, telephones, and so on. The IRHE's current rates are from 30 to 50 percent higher than those in neighboring countries. Intel's rates do not reflect the technological advances made in that sector and discriminate against users in the interior and users of certain international services. The IDAAN's rates have remained constant for several years for political, not economic, reasons.

A revision of the rate levels and structures is needed: the rates do not reflect marginal costs, they are used to finance inefficiency, they promote waste, there is a strong element of cross subsidization in their makeup, and they are partly a tax.

It is important to lower the IRHE's rates—at least the rates applying to productive activities (commerce and industry)—by perhaps 10 percent. This can be done in the middle of next year, and part of the reduction would reflect the drop in fuel prices. It is also advisable to introduce a differential rate in critical periods (in December and during the summer).

In Intel's case, it is important to establish per-call rates (based on the number and duration of calls) and to reduce long-distance rates within the country. Technical assistance can be obtained for making those changes. It is also necessary to replace cross subsidies with a system in which those subsidies are included in the national budget, the purpose being to make it clear and explicit that they are part of the state's contribution to social programs.

The legal rules governing the operation of state-owned enterprises are not conducive to their efficient operation. Bureaucratic procedure is slow and inflexible. For example, any change in the budget requires several levels of approval. The rules and complicated procedures prevent old automobiles and items of equipment from being sold, because they are treated as state assets. The result is that they are abandoned and not turned to good account.

The following are recurring themes as regards the management of state-owned enterprises: the lack of autonomy and flexibility in managing the enterprises, the various controls and restrictions applied by various agencies—sometimes in advance—and the multiplicity of objectives. Panama's experience is the same as that in many countries, and standard recommendations also exist for developing more efficient enterprises tending to operate in accordance with commercial principles. Those recommendations are:

- a) Replace prior supervision and control of inputs and operations (that is, pre-audit or budget management and control) with an evaluation of results after the fact.
- b) Liberalize the procedures for purchasing, bidding, and spending.
- c) Give the management boards more authority and responsibility, provide for more representation of the private sector, and make it possible to eliminate or reduce staff positions.
- d) Introduce contracts between the government and the enterprises to transfer the cost of social programs. As a result, that subsidy will be transparent, paid by the community, and not charged to the enterprise. This requires studies and rate determination.
- e) Ensure that pay increases and bonuses are linked to results or to fulfillment of the cost-efficiency goals established in the efficiency program.
- f) Budget management can be less restrictive, with the only remaining restriction being one on transfers between macro headings (pay and investment, for example). There can also be more freedom in daily and even quarterly operations.

The first step would be to draw up a framework law on the operation of state enterprises. It would deal with matters such as contracts and purchases, operating and investment budgets, audit and control, employment (including hiring rules, pay, promotions, and dismissals), debt, prices and rates, the role and establishment of management boards, and follow-up procedures. We can begin by making it a rule that an enterprise's budget will

consist solely of maximum limits and that no approval is needed for transferring amounts among the various headings as long as the overall maximums are respected.

It is clear that the ministries and other public institutions must reorganize themselves and orient their programs toward the new objectives, functions, and priorities regarding state participation. Once the framework for the policy has been established in a general way, the institutions will have to use it as a guide in their reorganization.

4. Social Security Reforms

The social security system in Panama comprises the health programs and the retirement programs. Originally, they were designed to be benefits paid for by the insured.

Under the previous government, the responsibilities of the health program were broadened, first to cover dependents and then to integrate the services for the insured with those for the uninsured. The result was that a program involving paid-for rights was converted into a social responsibility of the state. This added to the cost of the Social Security Fund's health program.

The program for the use and misuse of retirement funds for other programs has grown for various reasons:

- a) The waste, corruption, and misappropriation of funds that everyone knows about.
- b) The government's failure to pay the necessary amounts to cover the program for special civil service retirements.
- c) Nonpayment, delayed payment, or payment at low interest of the government's debts to the Social Security Fund.
- d) The investment funds used to finance the Ministry of Housing's housing programs at low interest rates were repaid late to the Social Security Fund.
- e) The second installment of the 13th month of pay was withdrawn from the fund and used for special programs.

Additionally, the fund's operating expenses reflect an excessive number of employees. The reserve funds are "invested" in hospitals, social housing programs, clinics, and other programs that do not yield an adequate return for the retirement funds. As a result of this situation, the actuarial reserves, which already showed a sizable deficit, have declined in recent years.

During the crisis of 1988-1989, the situation in the Social Security Fund grew considerably worse. For one thing, the number of employees—and therefore the amount of contributions—declined. The difficulties experienced by the firms and the closing of the same meant that large contributions remained unpaid. State-owned enterprises withheld but did not remit their contributions. At the same time, the number of people applying for retirement benefits increased—and is still increasing—as a result of efforts to resolve personal situations in the face of the crisis.

The Social Security Fund is now in great need of funds. There are payment delays and debts owed to suppliers, inventories of medicines need to be built back up, and urgent maintenance needs, including the replacement of medical equipment, that have been neglected. In their turn, applications for retirement benefits, which are paid upon presentation in cases of unemployment, will continue to place financial pressure on the fund. The short-term policy has been to pay the state's current obligations in cash and to reduce the accumulated debt.

For the medium term, the fund's reorganization is being considered. First of all, to separate its administration from the operations of the central government. Second, to separate and define the health programs and retirement programs in such a way that funds from one program will not be used for the other. The Constitution is also being amended to make this reform possible.

The other aspect of the social security system needing correction concerns retirements. In a study conducted in the mid-1980's, it was shown that the benefits, particularly for early retirement, did not have adequate long-term financing. Because of that situation, the difference between anticipated actuarial reserves and actual reserves increased steadily. Contributing to this were the low rate of return on investments, inadequate payment by the government, and excessive retirement benefits. The situation was made worse by the deficit in government retirements—the special retirements paid for by the Social Security Fund without adequate coverage by the government—and the loss of the second installment of the 13th month. There were abuses resulting in highly paid retirements, a situation that was corrected recently by the establishment of a maximum of 1,500 balboas for everyone, including those already retired.

We are waiting for an actuarial study that will bring the information up to date, take the new relationship between the fund and the government into account, and reformulate retirement rights in an effort to protect benefits but place them on a firm financial foundation. In any case, consideration is being given to the elimination of early retirements (or their replacement with a system financially equivalent to normal retirement), changes in the way retirement pay is calculated, retirement age, and the elimination of special retirements.

5. Personnel Program

A wage rationalization program is expected.

The first step was to identify high salaries and classify state enterprises into three types. There will soon be a decision as to who should be entitled to entertainment expense. There is administrative confusion over pay among the various institutions, even within one and the same institution. In particular, the pay received by personnel in the state enterprises is even higher than salaries and wages paid in the private sector. In many

cases, a person who was earning high pay while occupying a position of responsibility has continued to receive that same pay even though his duties have changed.

There is also excessive personnel both in the central government and in the state enterprises. At the same time, there is a shortage of personnel for filling several key positions. The excess personnel can be reduced when activities are transferred to the private sector or by normal attrition through retirement and other administrative procedures. There could also be programs for retraining people and transferring them from places with too many employees to places where there are personnel shortages. A modern system of personnel management does not exist. The personnel program may include advisory services for establishing a system governing selection, training, promotion, pay policy, and rules for dismissal as well as for defining rights and duties in terms of objectives concerned with efficiency rather than in terms of mechanisms for protection.

Finally, it is necessary to consider pay levels in the public sector. The government has decided to suspend the 13th month and to reduce entertainment expenses. For those earning less than 400 balboas, this means a cut in pay of about 7.5 percent. That decision and the dismissals were based on financial or political criteria.

The relative price of manpower in the public sector must also be taken into account. The economy is experiencing a slump. In recent years, the private sector has made some major adjustments with respect to pay levels, and in some cases, collective bargaining agreements have been amended. It makes no economic sense to protect the pay of government employees in the midst of this crisis. If necessary, an additional five percent could be pared from the average salary or wage to provide financing and greater support for the emergency employment programs, the investment program, or the purchase of inputs for the social services (medicines and educational equipment).

Social Program

During the 1970's, a social integration policy was used as a means of extending economic benefits to underprivileged groups. That policy was implemented by expanding education programs, building highways and feeder roads, carrying out agrarian reform, and extending social programs to the most underprivileged regions and groups.

The programs were implemented by means of sizable increases in public spending and through government agencies. The state became an agent of change and made itself directly responsible for improving living conditions. Later there was a conflict between the priority assigned to the producer state and those social objectives. Since the end of the 1970's, public investment has been steered toward the state-owned production enterprises at the expense of the social program. During the crisis of 1988-1989, the social programs were abandoned, and in some cases this even endangered the lives and safety of the citizens—as, for example, when the spraying program to control the Aedes aegypti mosquito was discontinued. This has left some programs in critical condition, the correction of which is the first priority of the social program.

The current government's social policy is based on the idea that the establishment of an economic system capable of generating productive employment will be the main mechanism for solving the social problems related to poverty. In the programs for improving conditions for the lowest income groups, the emphasis will be on equality of opportunity. The provision of basic social services will be concerned particularly with access to quality education, health services, housing, and community services. Basic primary-secondary education has shown itself to be very worthwhile from the economic-social standpoint, since it increases the productive capacity and income of the population benefiting from it. The economy's focus on the creation of productive employment also opens up new opportunities for low-income groups.

A second strategic element of this plan is that in carrying out the social programs and those against poverty, we will rely to a large extent on nongovernmental organizations (NGO's). First because that is more in keeping with the new policy for greater participation by the private sector in solving the country's problems. Also because the NGO's have displayed greater efficiency than the state bureaucracy in handling such programs. And lastly, because government-NGO programs have access to new financing from the developed countries.

Over the next three years, the objective will be to restore the previous level of social services, taking into account the increase in the population. Social programs have the highest priority in the government's spending plans. It will be up to the institutions in each sector to carry out the priority programs, the most important of which are described below. The emphasis will be on programs aimed at the underprivileged groups most affected by the economic crisis. The program known as the Emergency Social Fund is a key element here, since its purpose is to solve problems related to employment, critical poverty, community development, and improvements for underprivileged groups.

1. Emergency Social Fund (FES)

This is an program for investments in small, labor-intensive projects. The program is intended to solve employment problems in the short term and is part of the income distribution policy. It is expected to generate 20,000 jobs thanks to an investment of 250 million balboas in some 3,000 projects over a three year period.

This program is an essential component of the national government's recovery program.

The Emergency Social Fund, which has already been created by an executive decree of the Office of the President of the Republic, will have the following objectives:

- To create sources of employment and income for the most needy in the population.
- To increase the incomes of poor groups.
- To improve the economic and social infrastructure.
- To satisfy the population's basic needs.

The projects to be financed will meet the following requirements:

- They must be labor-intensive projects, and preferably domestic materials will be used.
- They must be small projects (averaging 85,000 balboas) and must not exceed 500,000 balboas.
- They must be in keeping with the needs of the community and leave behind a permanent structure or facility that will benefit the community.

The Emergency Social Fund will finance projects in the areas of economic and social infrastructure, social assistance, and production support.

The projects will be promoted preferably by nongovernmental organizations, groups organized in the communities themselves, and local government agencies. The projects will be carried out by hiring private firms, with proper supervision and inspection to ensure transparence in the handling of funds.

Concerning the hiring of manpower, priority will be given to unemployed heads of households and to young people and women, those being the groups most affected by the current crisis. They will be paid the minimum wage in effect in the country, but not the social benefits provided by law, since that would minimize the effect by reducing the number of jobs generated by the program.

The funds to be used in this program will come from donations and loans negotiated abroad. To begin its operations, the government will allocate to it a sum of 20 million balboas provided by U.S. assistance.

2. Other Social Programs

i) Programs To Combat Poverty

The current levels of poverty among the country's inhabitants reflect a serious deterioration in the quality of life for a high percentage of Panamanians, who do not have the minimum income needed for meeting their basic needs. It is estimated that 44 percent of the total population—that is, more than one million people—is living in poverty.

In the urban areas, which are the areas most affected by unemployment and underemployment, the emphasis will be on programs and projects involving self-management, mini-firms, and small firms and those using intensive manpower on a seasonal basis. This includes in particular the repair of streets, schools, and community facilities, the cleaning of storm drains and vacant lots, and so on. Examples of this activity are the programs currently being carried out by the Civic Clubs with an appropriation of three million balboas from the national government and the financing and guarantee program for small businesses that is being administered by the Social Development Foundation (Fundes) with support from U.S. AID [Agency for International Development] and the national government.

In the rural areas, priority will go to the execution of small projects for integrated rural development. Technical assistance will be provided for introducing technological improvements into the cultivation of land and stockraising and for making improvements in housing construction, environmental sanitation, nutritional and health education, and literacy, among other things. The Community Centers for Social Development (Cecopades) will also be strengthened.

ii) Health Sector

The critical situation in the health sector has had as its consequence a deterioration in the Panamanian's level of health. In the short term, the lack of equipment and materials is restricting the development of programs for providing people with direct care, both preventive and curative. The program's first objective is to restore the capacity and quality of health services.

That is why the policy's features are aimed at halting the deterioration in the coverage provided by the service. The objectives of the health policy must reflect a focusing of efforts on guaranteeing adequate care for the population.

To achieve that objective, preventive care in the area of maternity and infant health will be stepped up, and to control preventable diseases, high priority will be assigned to immunization as well as to nutritional programs and those aimed at eradicating deficiency diseases such as goiter, anemias, and blindness due to a lack of vitamin A.

To improve the environment, steps will be taken to strengthen programs concerned with sewage and trash disposal, also, spraying to control the malaria and dengue fever carrier will be stepped up. The entire population served by water systems will be assured a supply of drinking water, and coverage will be extended to those not yet served.

To ensure better results from the health programs, priority action is being given to activities involving the education of the community—that is, to teach the inhabitants the principles of good hygiene, adequate nutrition, disease prevention, and health care. An important program is the one for improving efficiency in the administration of facilities. For that purpose, a system of information on the cost of services will be developed, and the administration of health services will be further decentralized.

iii) Education Sector

The decline in the quality of education in Panama and the high social and economic return on investments in primary and secondary education make this the priority sector for public investment. It is necessary to improve the quality of education significantly at the primary, secondary, and university levels and especially in the area of technological education. The main objective is to provide greater opportunities for national talent so as to reach the highest levels of skill and improve the quality of the country's stock of human capital as regards both labor and management. The policy for educational development will be part of the main body of Panamanian public policy, especially as regards the country's economic development.

The qualitative improvement of education will require a thoroughgoing evaluation of the following: styles of education, ways of financing education, and current teaching standards. This means that in formulating a specific program for developing the education sector, it will be necessary to consider every aspect, including administrative changes, methods of financing education, and specific and verifiable goals which the country should pursue in raising the quality of the nation's human resources in both the economic and the civic sense.

Environmental Program

The environmental problems in this country, based primarily on an agricultural and service economy, result mainly from the inappropriate management of renewable natural resources and the disposal of waste products from the processes of production and consumption. Deforestation, erosion, the loss of soil fertility, and the water shortage are all part of a single cycle which is continuing despite what we know about the subject.

The contamination of sea and rivers by agricultural chemicals and industrial waste is reaching alarming proportions, but so far, adequate precautionary measures have not been adopted, nor have steps been taken to apply sanctions. Nowhere in the country are there facilities for the treatment of human or other waste. There are only facilities for collecting it.

The exploitation and reforestation of woodlands are solutions which will be given high priority by the government. Thanks to production systems combining agricultural and forest products, a greater diversity in the family economy is achieved, risks are diversified, the optimal use of separated plots of land is made possible, soil and water are conserved, and the market is provided with a greater diversity of products. Moreover, reforestation, whether on an industrial or a small-scale basis, provides a source of income and employment in connection with its management while also helping to prevent desertification, reduce soil erosion, and increase the water supply.

The forest conservation program is one of the government's highest priorities. For the first time in Panama, we will have a comprehensive and adequately financed system for combating destruction of the forest.

Woodlands cover 43 percent of Panama's national territory, mostly on the Atlantic side and in Darien Province. But our woodlands are being destroyed at the rate of 70,000 hectares per year because of unregulated settlement. Deforestation occurs wherever roads are built, whether in Darien, along the upper and lower coasts of Colon, or along the road between Chiriqui and Bocas del Toro. The results of uncontrolled deforestation can be seen in the country's "dry crescent" on the Pacific coast, where it is estimated that there are over one million hectares where the soil is seriously eroded and which cannot, under current circumstances, be considered truly productive land.

It is urgently necessary to design a suitable system of prices and economic incentives for the exploitation of woodlands. This will promote the appropriate use of the country's resources not solely with a view to the needs of today's generation, but also bearing in mind the need to lay down foundations for sustainable development in the future.

The state's task, as a commitment to Panamanians of today and tomorrow, includes the establishment and protection of areas which, for various reasons, must retain their natural forest cover permanently. Examples are the woodlands protecting sources of water for human consumption, irrigation and other agricultural purposes, the operation of the Panama Canal, industrial use, and the generation of electricity. Other examples are the mangrove swamps where shrimp and other crustaceans—the basis of one of the country's largest export industries—are bred.

The drive to implement the National Park and Forest Life Refuge System, which covers a little over 12 percent of the national territory, is a priority item in the government's program because of its multifaceted importance. Some of the areas in question provide protection from disease, an example being the Darien National Park, which covers more than 500,000 hectares and is the largest park in Central America. It prevents foot-and-mouth disease from entering Panama from South America.

Most of the parks protect sources of water, the best known being Chagres Park, which protects the springs supplying water to the canal. All the parks help preserve the biological diversity of flora and fauna. Just as Panama is famous for its ethnic and cultural diversity, so it possesses, in the world of natural phenomena, a geological and biological diversity that is out of the ordinary. That diversity is a big domestic and international tourist attraction which complements and reinforces the attraction of the beaches, shopping, and the climate.

Other forests of high economic value are those capable, under a sustainable management system, of helping to meet the domestic demand for forest products used in plywood manufacture, in construction, and in the production of energy both in small businesses and in the home. In rural areas and in suburban areas around the cities, wood is still the most common source of cooking fuel.

Public Investment Program

Beginning in 1983, public investment was sharply curtailed. The government's lack of current savings prevented it from financing the investment program with its own resources. Moreover, the investment budget was being financed entirely through loans from international financing organizations, and even the local counterpart funds were being financed with loans from the private banks. The debt crisis caused the sources of financing to dry up and made it necessary to reduce the fiscal deficit. That was done by cutting back on the investment program. As a result, the average investment outlay, which had totaled 386.3 million balboas (8.7 percent of gross domestic product [GDP]) during the period from 1984 to 1987, fell to an average of 232.8 million balboas (4.5 percent of GDP) in 1985-1987. During the politico-economic crisis of 1988-1989, investment dropped to less than 2 percent of GDP.

It needs to be pointed out that during the period from 1983 to 1986, a sizable share of public investment was used to complete the Fortuna hydroelectric plant and a number of expansion projects involving the electricity distribution system, complete the Chiriqui-Bocas del Toro road along the pipeline route, rehabilitate a number of roads, build two highway overpasses in Panama City, complete a number of investments in expansion projects in the Colon Free Zone and the port of Cristobal, extend urban water supply systems, and build housing in Panama City and Colon. Noteworthy in that period was the low level of investment in maintaining and expanding basic social services for the people in the areas of health and education, as well as the small investment in the telecommunications sector, the Panama City-Colon Railroad, and the ports, which are infrastructures important to the functioning of an economy that specializes in international services.

During the past three years (1987-1989), the public sector stopped providing even the minimum maintenance required by the state's entire economic and social structure, and that is why we are now faced with the disastrous state of the national highways and the streets in the main cities, the poor condition of the hospitals and health centers and their equipment, the ports of Balboa and Cristobal, the railroad, Tocumen Airport, all the schools in general, and the critical state of facilities operated by the IRHE and Intel, not to mention the lack of any technical assistance for agricultural producers.

Attention also needs to be drawn to the low quality of the spending carried out or classified as public investment, since a sizable portion of it was in fact current expenditure and another sizable share was swallowed up by the prevailing corruption. The new administration has corrected that situation by excluding all current expenditure from the investment budget and strengthening administrative, financial, and fiscal controls.

The public investment program for the next three years will include a component which we could describe as emergency maintenance, as opposed to preventive or regular maintenance. This is the case with the investments needed: a) by the IRHE to recover part of its installed generating capacity and improve its inventory of spare parts and its maintenance of transmission and distribution lines; b) by the IDAAN to acquire pumping equipment for the drinking water plant in Chilibre, pumping equipment for several other towns, and work tools; c) by the health sector for repairs to almost all the hospitals and the acquisition of medical, hospital, surgical, laboratory, and dental equipment; d) by the sector of education, sports, and culture for repairs to schools, the acquisition of school furniture, and repairs to stadiums, museums, and historical monuments; and e) in the area of urban livability, for street repairs, the cleaning and improving of storm drains in Panama City and Colon, and the repair of important national highways.

Another component of the investment program will be the section concerned with major rehabilitation of the Darien, Inter-American, and other highways and maintenance of the telecommunications system, the ports, Tocumen Airport, and the national electricity system.

Presented below are the most important projects included in the public investment program.

Health Sector

In this sector, as has already been stated, there are urgent maintenance needs in the hospitals and health centers to be attended to in the immediate future. In addition, negotiations with the IDB will continue to obtain financing for construction of a hospital in San Miguelito, rehabilitation of the Chorrera hospital, replacement of the polyclinic in Puerto Armuelles, and the conversion of health stations into health centers with the corresponding equipment. A program for rural water systems and a program for sewage disposal may also be included.

As far as drinking water is concerned, the IDAAN's priority in the metropolitan area will be to normalize water supplies in the eastern part of Panama City (an area comprising Juan Diaz, Pedregal, Tocumen, and Jose Domingo Espinar, with a population of 163,000) and on the west side (Arraijan, Vista Alegre, and the fishing port of Vacamonte, with a population of 65,000). In addition, a massive program for measuring and rehabilitating the supply lines will be carried out.

In the country's interior, eight aqueducts will be completed, and financing will be obtained for building a new drinking water plant and improving the aqueduct in

Puerto Armuelles. The program as described will cost approximately 45 million balboas.

Energy Sector

The national electricity system operates with severe restrictions on all its components because of the lack of maintenance. The result is that under normal hydroelectric conditions, the entire generating system operates at an average of 70 percent of its nominal capacity. The reason is that at present, the thermal system is operating at 40 percent of its nominal capacity and 70 percent of the power generated by hydroelectric means comes from power plants without reservoirs (Fortuna and Estrella Las Valles), the capacity of which drops from a minimum of 85 percent during the rainy season to 45 percent in the dry season. In addition, the system operates with precarious voltage regulating capacity and a very low reliability on the part of the plants in operation, a situation that might cause some units to drop out of the system in the near future.

The transmission and distribution systems are operating under precarious conditions due to the lack of effective maintenance and the shortage of spare parts. The result is frequent power outages, low-voltage conditions, and high energy losses. At present, energy losses for technical reasons and nontechnical reasons (theft) are in the order of 24 percent, this under conditions where a tolerable level would be 14 percent. For the period from 1990 to 1992, the IRHE has estimated that investments totaling approximately 60.1 million balboas will be needed to restore the national electricity system to its original levels of operation and efficiency and provide good preventive maintenance on a systematic basis. This program has been allocated some 23 million balboas in the 1990 budget, and a loan totaling 34.3 million balboas has been obtained from the IDB, which will begin disbursing that money in 1991.

The need to expand the generating system is being met by resumption of the work to raise the height of Fortuna Dam (to be completed in 1994 at a cost of 62 million balboas) and the installation of a combined-cycle plant in Bahia Las Minas with a capacity of 80 megawatts (to be completed in 1993 at a cost of 23 million balboas.

To meet electric energy needs beginning in 1997, consideration may be given to installing a 150-megawatt coal-fired plant. That would require an investment of 240 million balboas. Given the cost of that plant and the IRHE's limited ability to finance construction from its own funds, consideration must be given to participation by private capital in this undertaking.

Transportation Sector

In the subsector of highways and road transportation, the needs that will be met on a priority basis over the next four years are these:

- a) Completion of the work to rehabilitate some 60 kilometers of highway that began with World Bank financing but was suspended in 1987.
- b) Implementation of a program of periodic maintenance (patching and sealing) on 730 kilometers of paved highway.
- c) Improvements to critical points on the Panama City-Colon and Pan-American Highways, including rehabilitation of the most deteriorated sections of both roads.
- d) Implementation of a program to replace and rehabilitate bridges. A loan of 16.7 million balboas for this program is being negotiated with the IDB. Equipment for the maintenance of highways and drainage systems will be included. The total cost of the program is estimated at 30.4 million balboas.
- e) Low-cost civil engineering projects to facilitate the flow of traffic in Panama City, including improvements to intersections, a traffic signal system, downtown traffic, and the establishment of special lanes for buses. The World Bank has shown an interest in financing this program.
- f) Civil engineering projects to compensate for deferred maintenance on urban roads in the large towns.
- g) Implementation of a program for rehabilitating interurban highways.
- h) Widening the Arraijan-Puente de las Americas Highway to four lanes—financing has already been obtained from the IDB.
- i) Construction of the Northern Corridor and its access roads. Besides relieving traffic in Panama City, this road will open up the Reverted Area to new urban and commercial development. The cost of the project is estimated at 65.7 million balboas, and it may be financed by the Japanese Government.
- j) Rehabilitation of the storm drain system in the city of Colon
- k) Establishment of a data system enabling the Ministry of Public Works to draw up programs for preventive and routine maintenance.

As far as the Panama City-Colon Railroad is concerned, its complete rehabilitation will require 25 million balboas; alternatively, five million balboas can be spent to rehabilitate locomotives and track. Complete rehabilitation of the railroad will have to be part of the negotiations concerning the Port Center project, since that would ensure its profitability and efficiency.

Growth, Employment, Fairness

The basic economic problems in Latin American countries are growth, stability, foreign debt, and the problem of fairness. In Panama, the problem of stability is automatically taken care of by the way the monetary system works. As for the problem of growth and fairness, the policies presented below have been designed to achieve those objectives.

1. Possibilities for Growth

An essential feature of future growth will be increased exports. In several countries, the "outward" growth model has shown great potential.

The program described here promotes Panama's various exports. The traditional exports are financial and trade services, tourism, bananas, livestock, sugar, and services related to our geographic location. New exports will result from development of the Multisectoral Export Processing Zones and improvements in the competitiveness of the Colon Free Zone. The Port Center project can be regarded as a structural investment that will permit a new specific characterization of the use of our geographic location.

The changes in the economic policy will lead to new areas and products for export. The current system, as described, is skewed against exports. Greater competitiveness will make it possible to introduce new agricultural exports, expand a number of industrial exports, and take better advantage of our geographic location.

A second feature favoring growth is increased investment, including international investment. Maintenance of the monetary system, the restoration of unrestricted banking, the existence of legislation favorable to the mobility of capital, and the government's bias in favor of private enterprise make the country attractive to foreign investors. Certain areas such as Port Center and the industrial assembly plants are especially attractive to foreign investment. Finally, the sale of state-owned enterprises will also attract international investments. The adjustments to the economic policy will make Panama attractive to international investors. There will also be an increase in private domestic investment, which has been depressed in recent years. And while investment by the public sector will not return to the high levels that existed before 1987, it will increase in terms of today's level.

The main element for guaranteeing self-sustained growth is to redirect the economy toward a more efficient and competitive system. This is being done by encouraging more production by the privage sector. The proposed measures will also increase the efficiency of state-owned enterprises and increase the productivity and competitiveness of private activities in both the industrial and the agricultural sector. The elimination of many restrictions in the labor sector will help increase efficiency. Finally, the increase in competition, the elimination of restrictions on the operation of private firms, and the existence of a system of unregulated prices will make the system as a whole more productive and competitive.

2. Possibilities for Higher Employment

As in other areas of the economy, the crisis has created an acute problem in the area of employment. This is a special short-term problem. The actions being proposed and those underway will help solve this problem. Those actions are:

- a) Economic recovery: the renewal of commercial, tourist, construction, and banking activity.
- b) Development of the Multisectoral Export Processing Zones.
- c) Resumption of the public investment programs.
- d)The Emergency Social Fund, which is specifically intended to promote employment.

The problems involved in generating employment in the Panamanian economy were linked to the interrelated family of incentives and policies skewed against the generation of productive employment. Specific incentives created less demand for manpower by increasing its relative cost. Those incentives included taxes, equipment subsidies, and labor regulations. General incentives were reducing the activity of labor-intensive sectors, examples being nontraditional exports and construction.

The compensating mechanism or policy transferred responsibility for solving the employment problem to the state. This was done through public-sector employment and the establishment of incentives that reduced the labor supply. That mechanism was obviously inefficient, it created inefficiencies, and it could not be sustained over the long term.

Under the proposed policy, it is the market, not the state, which will generate jobs through the activity of private enterprise. Increased employment will result not from a direct policy or from direct actions by the state; instead, it will result from the operation of the economic system.

3. Fairness

In Panama over the past 20 years, despite the efforts of a populist government, there have been no improvements in the distribution of income. Serious problems involving groups in a state of critical poverty persist, and a significant percentage of the population is excluded from the benefits of a modern economy. In economic terms, this shows up in the form of underemployment, unemployment, the existence of an informal sector, agricultural subsistence, and economic and social alienation.

The economic policy was aimed at the protection of various social groups: high prices for farmers in the case of protected products; the protection of manufacturers from foreign competition; the Labor Code for union members; job stability for government employees, who were overpaid in terms of what they could earn in the open market; and incentives and subsidies for various productive sectors.

Every distortion represents a privilege, since it gives a particular right to one group at the expense of the rest of society. Sometimes this is done to compensate for or protect oneself from the effect of other distortions. When an activity or sector has many producers—that is, when there is competition—distortion does not necessarily result in much higher incomes. Moreover, the benefits are not the same for everyone. The system produces inefficiences because it means that the manager of a company spends more time defending it (in the halls of the the ministries) than he does improving its efficiency. Under that system, the successful firm is the one that can best manipulate the political system, not the one that is most productive.

But under that system, not everyone had privilege or was protected. The unprotected sectors, or those lacking access to high-paying exports, were excluded from the system's benefits. That is the case with a high percentage of the population, which is either employed in low-paying jobs, underemployed, or engaged in subsistence activities. The price structure and the corresponding system of wages and profits are such that the privileged sectors are doubly benefited thanks to their high incomes and the low price of luxury items (except housing). In turn, the neglected or excluded sectors are doubly harmed as a result of their low incomes or wages and the high price of essential items (including housing).

The compensating mechanisms, such as public services and government employment, did not suffice, nor was it possible to maintain them. The expansion of education lost its potential as a social leveler owing to its deteriorating quality. Public spending was able to help as long as it was financed by borrowing, but then taxes became a new burden: an additonal problem. In short, the system took more than it gave as far as the underprivileged groups were concerned. And the net result has been the continuation of a poor distribution of income and of serious problems involving critical poverty.

Establishing a market economy means that the incomes from the various factors participating in production are the result of their contribution to it. If a market economy is not in operation, a more important factor in determining income is political support or social position, both of which operate through influence. That is why it is said that the market creates more equitable opportunities.

The new economic policy is intended to create a more equitable system by providing greater equality of opportunity. The very act of eliminating distortions and privileges creates a more equitable system. Incentives will be designed to benefit society as a whole, not certain groups or sectors. The creation of productive employment and freedom for any businessman to enter any industry are a prime element for creating greater equality of opportunity. It is the system, not the state, which will help solve the problem of low-income groups. The state could not, cannot, must not, and does not want to guarantee incomes through public spending.

The selective expansion of key public services, especially education, will help to create greater equality of opportunity. Investment in human capital has shown itself to be the most efficient mechanism for improving the distribution of income and reducing or eliminating the problems of critical poverty.

Mechanisms for Implementation

The measures presented here constitute a coherent program. But it must be borne in mind that some of the proposals are based on the assumption that the other adjustments will be carried out. For example, wage reductions are justified to the extent that there is a corresponding drop in prices, and reduced protection is justified when accompanied by a reduction in other distortions. If some features of the program are not implemented, the others will also have to be revised. For reasons of a political nature, the adjustment-restructuring process may affect primarily a single sector, leaving the rest of the economy just as it is. It would have been possible to design a program whose adjustments would fall on the private sector without affecting the distortions present in the public sector's activities. That is what was done in the past, when the pay of government employees was left untouched. Or one can come up with a program producing changes in the labor sector but not correcting the distortions favoring investment in certain productive sectors. In those cases, some benefit results, and there are improvements in efficiency, but the effect is much less than that produced by a complete adjustment. Moreover, the adjustment might not be very equitable.

Alteration of the economic system is encountering resistance from certain groups fearing that their incomes will be affected. Ideological interests, which have defended the protection system, and state socialism are also opposed to the existence of a market economy. But the program is self-sustained, and we believe that it is difficult to think of a better alternative. We hope that national interests will prevail over the interests of private groups.

As an example, we can consider the case of construction. The building materials industry is overprotected, resulting in high prices for its products. The collective bargaining agreement with the employees, at least in Panama City, results in wages much higher than those in the market, which is also a protected sector. In turn, the construction firms are protected from foreign competition. And finally, the government subsidizes that activity by transferring the sector's additional costs to society in general. As a result, there may be a shared interest in preserving the situation as it is. But that would be wrong. Great potential exists for an increase in production and employment, provided the distortions are removed. In the final analysis, increased production and improvements in efficiency would generate a level of income similar to or greater than the current level for those producers who are efficient.

Recent discussion in Panama has produced several public proposals concerning the nature and form of a recovery policy. There is open or implicit discussion of the choice between a short-term recovery policy and a structural development policy. The position of the Ministry of Planning has been that this is precisely the correct moment to make changes in the economic structure—the development model. Both politically and economically, we have reached the appropriate moment, and if we do not take that step now, we will find it even harder to do so later on.

On this issue, it is sufficient to look at what is happening in the world around us. The world's developed countries have made changes and come up with deregulation programs, and this includes the United States, Great

Britain, and France. Europe is in the midst of an accelerated process of market integration and economic deregulation in preparation for 1992. The countries of Southeast Asia, such as Korea, China, and Singapore, exemplify the success of a policy of outward growth. In Latin America, we have seen the success achieved by Chile and the process underway in Mexico. Recently, the dramatic changes in the Eastern countries, including Russia, have reaffirmed the move toward a market economy.

Panama will benefit rapidly if together we eliminate the restrictions hampering economic growth and take advantage of the international opportunities awaiting us in this decade of the 1990's.

We have everything we need to carry out our national task—including funds for the next few years and technical assistance for redirecting our production. New horizons offering greater well-being for all Panamanians are awaiting us.

Argentina

Cavallo Cites Progress in Relations With U.S.

PY2108181390 Buenos Aires LA PRENSA in Spanish 19 Aug 90 pp 1-3

["Exclusive" interview with Foreign Minister Domingo Cavallo by unidentified reporter; place and date not given]

[Text] [LA PRENSA] Minister, when you assumed office, what was the state of relations between Argentina and the United States, and how have they developed up to now?

[Cavallo] There had been signs of mutual distrust. There had been subjects about which the United States thought the Argentines were not frank enough, and we also thought the United States was not paying attention to, nor helping solve basic Latin American problems.

Now we believe that much progress has been achieved. Subjects that had been the causes of distrust before are now talked about with absolute frankness. Thus, I can mention subjects such as the peaceful use of nuclear technology and the safeguards our country is willing to provide while still preserving industrial secrecy. I can also mention aerospace technology and the risk the United States has attributed to Argentina regarding a possible dissemination of missile technology. We have removed the distrust that existed over those strategic issues, and the United States has also given very concrete signs of concern and support to the solution of basic problems affecting Argentina and Latin America. The most recent demonstration of this was President George Bush's initiative, which intelligently and appropriately interrelates the three key components for a long-lasting solution of Latin American problems, and especially those of our country: trade, investments, and foreign debt.

[LA PRENSA] It comes to mind that since the disagreements during the time of Braden [former US Ambassador to Argentina, 1945-46] or Peron, President Carlos Menem, another Peronist, is the one trying to restore relations with the United States.

[Cavallo] Peron improved relations with the United States; to the point that a U.S. enterprise was invited to exploit key resources in Argentina, and a concession contract—the controversial California contract—was signed in 1954, which preceded the one signed by Frondizi four or five years later.

This means that resorting to foreign capital, and especially to economic and social connections with the United States, began to change during President Peron's administration. What happened is that afterwards, in the 1970's, a position of extreme independence and much distrust toward the United States and foreign capital in general, and against the U.S. citizen in particular, spread throughout Latin America. Perhaps this approach prevailed among Peronists of that time. But in the same manner, it also prevailed among most political leaders and Latin American governments of the time.

Nevertheless, today President Carlos Menem added to his foreign policy the same ingredient he added to his economic and social policies, which consists of respecting national and world realities. Within this realistic and pragmatic position, there is a good, excellent I would say, relationship with the United States. This is very important for Argentine interests and for the solution of its social and economic problems, especially when the United States is beginning to strongly support the integration efforts being made in the southern cone.

[LA PRENSA] Foreign policy in our country has often been divorced from domestic policy. This divorce seems to have been overcome since 1989.

[Cavallo] This is a project prepared by President Menem that includes all aspects in a very consistent manner. Regarding foreign policy, Menem said he wanted to reestablish relations with England, to channel these relations through dialogue, and to give up reciprocal hostilities. He has also requested good relations and dialogue with the United States. Menem stated: "...I want to be close to the world that progresses, to that which we hope will be the only one in the future in which we will find the opportunities and solutions to problems of countries that are found within it." He was thus pointing out an objective absolutely consistent with the idea of reducing the state's entrepreneurial activity in the economy, privatizing public enterprises, reducing expenditures, eliminating the deficit, stabilizing the economy, and giving private initiative a special role in production, trade, and business. This would be based on a market economy which is prevailing everywhere in the world because of its proven effectiveness.

This means that there is absolute consistency between the foreign policy and the domestic macroeconomic and social policy of our country.

[LA PRENSA] Returning to the efforts made to improve our relations with the United States, have these efforts consisted of reciprocal actions or have they virtually been unilateral Argentine efforts?

[Cavallo] Absolutely reciprocal. U.S. Ambassador Terence Todman has been an ambassador favoring open dialogue, someone who has come with an attitude of supporting, in an active manner, President Menem's transformation efforts. We believe that this is also not a personal initiative by Ambassador Todman, but that it responds to instructions and a mission of President Bush and his administration to be concerned over and support the solutions to the problems of Latin America. Thus, it has not been just a unilateral Argentine attitude toward the United States, but there have been very clear U.S. signs toward us. I can give you some examples. The United States helped us very much in reestablishing

relations with the United Kingdom. At all the opportunities in which I, as a minister, or President Menem have contacted our North American counterparts, we received an immediate response. This demonstrates that the Americans are very interested in the issues we raised with them. We also encountered great alacrity in responding affirmatively to the support and requirements that we raise with them.

[LA PRENSA] Do you notice this just as the Republican Party's conduct or are the Democrats also involved? Can one bet on the stability and the consistency of the relationship?

[Cavallo] It is interesting to see how foreign policy in the United States reflects a consensus between Republicans and Democrats. We believe that in the U.S. Congress there already was a favorable inclination and a great interest toward Latin America and President Bush has laid claim on this, giving it executive characteristics.

[LA PRENSA] Moving on to the economic area, it can be noted that certain Argentine products continue to encounter serious difficulties entering the American market due to restrictions.

[Cavallo] Exactly. In particular, it has been very easy for the North Americans to impose compensatory rights and "anti-dumping" [preceding word in English] measures since a claim by a company or a producer that considers itself damaged is enough to activate a mechanism established in U.S. Domestic Law No. 301 on American trade. As Argentina did not join the GATT Subsidies Code and anti-dumping measures in 1985, the United Sates, according to its domestic law, does not assign to our country the so-called "benefit for damage evidence" to which a claimant is entitled. This means that someone files a claim and a damage is presumed. It is not necessary to prove it. Compensatory rights or anti-dumping measures are directly implemented. Other countries, such as Mexico, Brazil, Chile, and Uruguay, joined the GATT Subsidies Code and are favored by the fact that a claiming North American businessman must prove the damage.

[LA PRENSA] Is there any solution in sight?

[Cavallo] We have just initiated bilateral negotiations with the United States so that, with the initiation of the negotiations required for our country to join the GATT Subsidies Code, the United States will also assign us the benefit of the damage evidence clause. We, along with Brazil and Uruguay, are working together to negotiate with the United States the removal, as soon as possible, of the current compensatory rights and anti-dumping measures, which are disturbing our penetration into the American domestic market, as a compensation for the efforts our countries are making to remove subsidies and re-create market economy conditions. In fact, this is a topic on which we expect a positive response from the Americans as a starting point for the talks to establish a free trade area. We believe that before talking about reducing the tariff barriers that are hindering trade between our countries and the United States, it would be very important to remove the specific barriers they have for certain products, barriers restricting access to the North American market by virtue of its domestic legislation.

[LA PRENSA] Let us move on to American investment. With the exception of the Bell Atlantic company, we do not notice a marked inclination by U.S. businessmen to risk capital in our transformation process.

[Cavallo] Concerning investments, North American businessmen are not necessarily the ones who have the largest amount of funds. We must bear in mind that their country's economy does not substantially accumulate capital. On the contrary, it is attracting capital from Europe and Japan. In fact, Germany and Japan, for example, are the countries that have more capital surpluses. The United States, however, acts very effectively to arrange the financial engineering of the projects. For example, although European operators have presented themselves, the banks that were involved in the financial engineering of nearly all the privatization projects are American. U.S. companies are also very active in their commercial and technological initiatives. Therefore, we believe Americans are interested in our area. We believe that an investment increase in Latin America will be advantageous for them because that could involve more North American sales to this region and, consequently, it would help them to reduce the foreign trade deficit currently afflicting them. Obviously, we should not only expect responses from the United States. The response of Japanese or European investment is also welcome. I also want to make it clear that the privatization process is just beginning in our country and that there is still a long way to go. Therefore, we foresee a greater influx of investment companies.

[LA PRENSA] Concerning Argentine nuclear development, do you think that the United States is convinced our project is for peaceful purposes, or are they still exerting pressure for our country to submit to direct controls?

[Cavallo] The United States is aware that Argentina does not oppose controls, but with the single condition that the industrial secrets of the technological development be preserved. What is new in Argentina is that we are willing to observe the widespread security measures. A new U.S. position is that they show interest in supporting joint negotiations between Argentina and Brazil on protecting methods that can assure the industrial secrecy, such as those agreed upon by Japan and Europe, and about which we could not even talk with the International Atomic Energy Authority one year ago.

We believe that the United States is willing to help us, especially if Argentina and Brazil reach an agreement on the implementation of controls and security measures in the peaceful use of nuclear technology and if we have the same privileges in preserving the industrial secrecy of our own technological developments.

[LA PRENSA] Is it possible to expect U.S. investment in the Argentine nuclear development after the agreements are signed?

[Cavallo] We think that the United States and Canada will invest in this area. We have been told that as soon as Argentina has a good system of international security measures they will be willing to promote the development of Argentine nuclear technology.

[LA PRENSA] When do you think these agreements will be signed?

[Cavallo] We estimate that quick progress will be made to reach them. We are making a joint effort with Brazil, which is a key step for this policy to succeed.

[LA PRENSA] When will President Bush visit Argentina?

[Cavallo] He may come by the end of this year as he has already announced in his letter to President Menem.

[LA PRENSA] Can we interpret President Bush's visit as a support of the Argentine political development?

[Cavallo] I think his visit will be proof of his confidence toward the democratic system that is spreading in Latin America and to the type of reforms that are being implemented in this region. His visit will reflect his interest in the future of this region which is very important to the United States.

[LA PRENSA] Concerning other matters on the Argentine foreign policy, what is the objective of your visit to Chile?

[Cavallo] We term the integration process on the continent, especially in the Southern Cone, as very important. We believe that this integration is important because it will serve to increase commercial exchange and to integrate our economies in the industrial sector. We want to encourage the establishment of "joint ventures" in our countries and to be able to compete in third markets through our capacity and our effort. This integration should also help us to begin discussions on defense and security matters in a regional format and not with isolated domestic criteria. This is why we attach great importance to our talks with Brazil, Uruguay, and undoubtedly with Chile.

What is important is that an atmosphere of understanding prevails with the new Chilean Government and among the Argentine and Chilean people who are working with great enthusiasm. This weekend we will prepare all the matters to be discussed by the two presidents during the visit President Menem will make to Chile late this month.

[LA PRENSA] Do you mean that the integration with Chile will be parallel to that carried out with Brazil and Uruguay?

[Cavallo] We have already outlined a very clear common market and joint integration with Brazil, Uruguay and other countries. Chile is aware that our countries will welcome Chile and Paraguay to join our common market.

We also want to undertake a fluent and parallel exchange of experiences with Mexico and with the Andean Pact countries which have already agreed on the creation of a common market.

Taking into account that the Andean Pact, Mexico, and our countries are members of ALADI [Latin American Integration Association], and President Bush's Americas Initiative, we believe that relations with these countries are very essential.

Bolivia

U.S. Congress Report on Corruption Rejected

PY2208032090 La Paz Television Boliviana Network in Spanish 0030 GMT 22 Aug 90

[Italicized passages are recorded]

[Text] Political leaders and military authorities today categorically rejected a U.S. Congressional report that levels corruption charges against the Bolivian Armed Forces in connection with the antidrug fight. The report was made known in Bolivia today.

Armed Forces Commander in Chief General Jorge Moreira rejected the report, which was drawn up by the U.S. House Government Operations Committee and which leveled corruption charges against Bolivian military men involved in the antidrug fight. The commander said the Armed Forces do not participate in the antidrug fight, and only reduced Air Force and Navy units have provided logistic support to the specialized antidrug troops. He added that the U.S. Government will be asked—through the Foreign Ministry—to provide an official report on the charges leveled by the U.S. Congress.

United Left Deputy Filemon Escobar, who is a member of the National Convergency Axis, said the following about the U.S. charges:

[Escobar] *The U.S. Government and the U.S. Senate have no right whatsoever to smear the Bolivian Armed Forces, the Bolivian Government, much less, the Bolivian people. Who has charged the Armed Forces with corruption? Those who have just invaded Arab countries to continue to control oil, with which they obtain annual profits of $200 billion which they deposit in English and U.S. banks. With that money they have imposed a neoliberal policy in Latin America, invaded Panama, financed the Nicaraguan contras, invaded Grenada, etc.*

Senate Defense Committee Chairman Carlos Farah said the following:

[Farah] *We have demanded that the U.S. Congress send all of the documents that prove such disrespectful charges. I am sure this resolution will be unanimously endorsed by the Bolivian Senate because it could not be otherwise.*

Free Bolivia Movement Deputy Alfonso Ferrufino has demanded that the foreign minister be questioned on the subject.

[Ferrufino] *I believe it is extremely serious, because it is the official opinion of a very important institution of the U.S. Congress. We are aware of the influence that this type of report has on decisions made by the U.S. Congress. Who knows what could happen? For example, we could presume that if this report is adopted as the official position of the U.S. House of Representatives, all Bolivian chances of obtaining economic cooperation will be seriously jeopardized.*

Conscience of the Fatherland [Condepa] leader Julio Mantilla has said that his party will endorse the Bolivian Chamber of Deputies resolutions supporting the Bolivian Armed Forces.

[Mantilla] *Condepa voices its absolute solidarity with the Bolivian Armed Forces which, in our opinion, are now the victim of U.S. confusion and of the lack of a U.S. policy on drug trafficking control. This confusion is reflected in the fact that the Washington mayor has been found not guilty, and in the fact that the U.S. ambassador to Bolivia has said there was actually no trafficking problem involving a jet that was retained in Bolivia. He said a very small amount of drugs were found inside the plane and that the seizure of the plane—in keeping with Bolivian law—has even caused a loss to Bolivia.*

Referring to the U.S. Congress report, Nationalist Revolutionary Movement Deputy Ciro Humboldt Barrero said:

[Humboldt] *I feel great respect for the Armed Forces, which I hold in high regard. I believe this is an exaggerated report. I believe the report is inaccurate and our Armed Forces are serious and responsible, as has been shown over the past few months.*

Minister Reports Increase in Oil Production

PY2208033290 La Paz Television Boliviana Network in Spanish 0030 GMT 22 Aug 90

[Text] The Bolivian Government Oil Deposits' [YPFB] production level has increased over the past few months, leading to the conclusion that Bolivia can export hydrocarbons. Energy and Hydrocarbons Minister Angel Zannier has stressed that the price of gasoline will not be increased.

[Begin Zannier recording, in progress] ...YPFB production may substantially increase, so that we may no longer need to buy oil from the multinational companies operating in Bolivia—from their production quotas—in order to cover our domestic needs. Even more so, we expect the number of oil producing companies operating in Bolivia and the level of production to be such that we may recover our position as an exporter of liquid hydrocarbons. [end recording]

Brazil

Iraq Conditions Visas to Fulfillment of Contracts

PY2108172290 Rio de Janeiro Rede Globo Television in Portuguese 1600 GMT 21 Aug 90

[Text] Iraq is making it difficult for Brazilians working in that country to leave. The Baghdad government wants them to continue their work until all the terms of contracts that have been signed are fulfilled.

The Iraqi Government wants the Mendes Junior Construction Company to comply with the terms of two contracts, one for the construction of a road and another for an irrigation project in the (Al-Nassiryah) region. If these contracts are not fulfilled, the Iraqi Government could confiscate the Mendes Junior Company's equipment. The most serious aspect of the problem, however, is that the Brazilians working on these two projects may find it even more difficult to obtain visas if the contracts are not carried out.

Itamaraty is already working to overcome these difficulties and to obtain Iraq's permission for these Brazilians to leave the country.

[Begin recording] [Itamaraty spokesman Jose Vicente de Sa Pimentel] The Iraqi ambassador came here yesterday and mentioned the need to further negotiate the withdrawal of certain Brazilians who have contracts with Iraqi companies. He also mentioned certain agreements that must be reached.

The truth is that Itamaraty's efforts have been partially rewarded because 83 Brazilians have already crossed the Iraq border and are now in Jordan. We hope to withdraw 30 more Brazilians (?today). We will continue to work on overcoming these difficulties.

[Reporter] Did the Iraqi Government state, through its embassy in Brazil, that it will not grant visas to the Brazilians who are still working in Iraq?

[Pimentel] Certain agreements must be reached before these visas will be granted. We hope these agreements will be reached soon. [end recording]

Official Notification Pending

PY2208011590 Rio de Janeiro Rede Globo Television in Portuguese 2300 GMT 21 Aug 90

[Text] Itamaraty and the Mendes Junior construction company have reported that so far, they have not received any official notification from the Iraqi Government to the effect that Brazilians must fulfill their job contracts before they are allowed to leave Iraq.

Iraqi Foreign Minister: Do Not Listen to U.S.

PY2208004190 Rio de Janeiro Rede Globo Television in Portuguese 2300 GMT 21 Aug 90

[Text] The Iraqi Foreign Minister has made a surprise trip to Jordan where he granted a news conference and told a REDE GLOBO special correspondent that Brazil must not listen to the United States.

[Begin correspondent Pedro Bia recording] The Iraqi Foreign Minister has invited the Americans to talk. He said that Iraq does not accept the precondition of pulling out of Kuwait because Israel has occupied Jordanian territory for nearly 30 years with impunity.

I asked him what help or mediation he expects from Brazil, which maintains friendly relations with both Iraq and the United States. He replied: We just want you to remember your friendship with Iraq as well as the interests you have in that friendship. You know that Iraq and Brazil have had good relations that were convenient for both sides. Please remember that fact, maintain that fact, and do not listen to the U.S. Government.

From Saddam Husayn's speech today, and from the news conference granted by Iraqi Foreign Minister Tariq 'Aziz here in Amman, it can be gathered that the search [by Iraq] for a peaceful solution to the crisis has ended in the present conflict. If there is war, Iraq may have Iran—who can say—as an ally. The Iranian parliament today called on all Muslims to expel the Americans from the Gulf area and the Arab world.

If there is no war, all countries in the world will be pressured to choose sides. In the Middle East, neutrality is beginning to be considered a sin. [end recording]

Infrastructure Minister on Oil Prices, Supply

PY2208003090 Rio de Janeiro O GLOBO in Portuguese 19 Aug 90 p 49

[Interview with Infrastructure Minister Ozires Silva by unidentified reporter; place and date not given]

[Text] [O GLOBO] What is the best lesson Brazil has learned from the Persian Gulf crisis?

[Silva] We have not learned any lesson because what is happening today in the Persian Gulf was predicted. All experts on the matter agree that it was foreseeable—not the absorption of Kuwait by Iraq, but everyone who understands something about energy was convinced that the price of petroleum was not sustainable because it did not cover production costs. No product remains on the market without repaying production costs. Any mechanism could have caused an increase in the price of petroleum.

[O GLOBO] Was such a high increase expected?

[Silva] It was actually not that high. It was less than the shocks of 1973 and 1979. If we take the price of petroleum, which was approximately $18 before the crisis, and if we express it in terms of the 1973 dollar rate, we can see that the price of petroleum was less than $3 per barrel. This was not sustainable. I was expecting something of this nature. I made a statement in Congress right after the government took power predicting an increase in oil prices. The price dropped the following week, and the press said that the minister had talked about a price increase and it dropped. I was talking about a long-term increase. I was surprised myself because there was a tremendous drop in 1986, and that price lasted four years. It is incredible that it lasted so long.

[O GLOBO] Was Brazil prepared to purchase petroleum at $25?

[Silva] No. We were not prepared for that. A possible preparation would have been to invest more in production after the 1985-86 period when Petrobras [Brazilian Petroleum Corporation] made tremendous efforts to increase production. But after that, investments dropped considerably and the company had to struggle to increase production. The government—through a rate lag in which it used public prices and rates to control inflation, which does not work—caused the company's resources to decline so that it was not in a position to make investments.

[O GLOBO] What is the amount of Brazilian reserves?

[Silva] We now have growing reserves amounting to some 3.5 billion barrels of recoverable reserves, making us much less dependent than we were.

[O GLOBO] What is the best alternative: increasing national production, alternative energy...?

[Silva] Our solution will obviously be increasing national production. However, instead of entering the international area, Petrobras held an essentially domestic position. It is the company's fault. It depends on imports for 50 percent of its oil and holds a national monopoly—being the only company that can purchase oil in the country. It has maintained a domestic position and has failed to fulfill its responsibility to the nation. It should not be just a petroleum monopoly or a source of privilege.

[O GLOBO] Do risk contracts represent another alternative?

[Silva] The National Congress has gone the same direction and has forbidden the signing of risk contracts, arguing that all investments must be ours. No one else can invest in the search for petroleum in Brazil. We have to make our own investments. We have concentrated everything. We have placed a tremendous barrier and now, we have to pay the bill.

[O GLOBO] Who pays the bill?

[Silva] The Brazilian people. There is no way out. Sooner or later the people will either pay as consumers or as taxpayers.

[O GLOBO] Are there any other alternatives?

[Silva] We are working on other alternatives. For example, we may make the following decision: Petrobras will make no investments this year and will not increase prices. Another alternative would be to obtain other resources for investment in order to avoid increasing prices.

[O GLOBO] What is the priority target: To balance Petrobras accounts or keep inflation under control?

[Silva] Beyond all doubt, to keep inflation under control. This, however, does not mean disregarding Petrobras accounts. Brazilian fuel consumption is quite high. We expect to surpass 1.2 million barrels a day in the second half of this year. A small fluctuation in the price of a barrel makes a very big difference.

[O GLOBO] Will Brazil look for new suppliers?

[Silva] It will not. We were forced to get new suppliers now because Iraq and Kuwait supplied us with 200,000 barrels a day and this amount accounts for 40 percent of our total oil imports. We have to diversify our suppliers. It was not that bad, after all, because a larger number of suppliers means less dependence on some countries.

[O GLOBO] Was the fact that Iraq became our main supplier a strategic mistake?

[Silva] Iraq was one of the few countries that agreed to implement a countertrade system on oil transactions, thus giving us a chance to sell our products.

[O GLOBO] Who are the other suppliers?

[Silva] We have already closed some deals. Our major supplier is Iran, but no deal has been closed yet.

[O GLOBO] What quantities are provided for by the contract?

[Silva] Before the crisis we had agreed on 100,000 barrels a day. Now Iran is considering whether it can increase that quantity by 50 percent. We submitted requests to Venezuela and Mexico, but no deals have been closed yet. However, we are not willing to close the deals in a very short time because the market is nervous and we could risk adopting a price policy that might not be the most favorable one.

[O GLOBO] Will this crisis reactivate the Proalcool program?

[Silva] This program has another origin. The problem of alcohol is something else. Alcohol does not replace petroleum but gasoline, and we have an excess supply of gasoline. Today diesel fuel is critical for us. Alcohol cannot replace diesel fuel.

[O GLOBO] Have there been frictions between the Ministries of Infrastructure and Economy because of price increases?

[Silva] No. We are on very good terms. Paulo Cesar Ximenes, who was secretary general for former Economy Minister Mailson da Nobrega, has said that he has not seen such good relations between a ministry that spends money and the one that "saves" it under any government. Economy Minister Zelia Cardoso and I maintain very friendly relations. We have mutual confidence. We solve everything over the phone.

Efforts To Replace Iraqi, Kuwaiti Oil Detailed

PY2208023490 Rio de Janeiro O GLOBO in Portuguese 21 Aug 90 p 25

[Report by Ramona Ordonez]

[Text] Petrobras has managed to sign a contract with Iran to import another 50,000 barrels of oil per day. The deal was celebrated by Petrobras, which managed to increase its oil purchases at a difficult moment due to the conflict in the Persian Gulf. According to a contract signed last month, a few days before Iraq's invasion of Kuwait, Petrobras was importing 100,000 barrels per day from Iran. Iran has now become Brazil's main oil supplier. Saudi Arabia is second with 140,000 barrels per day.

A Petrobras Commercial Department official travelled to Venezuela yesterday to negotiate the purchase of another 50,000 barrels per day from that country, from which Brazil currently imports 5,000 barrels per day. Venezuela, an OPEC member, is the second largest oil producer in Latin America, after Mexico, with a daily production of 2 million barrels per day.

If an agreement is reached with Venezuela, Brazil will have managed to replace at least 100,000 of the 190,000 barrels of oil it used to import from Iraq and Kuwait. At the same time, Petrobras continues to purchase oil and oil by-products on the spot [preceding word in English] market in African countries such as Algeria, Nigeria, and Angola, and from Venezuela. The arrival of 200,000 cubic meters of diesel oil from Venezuela and 45,000 tons of aviation kerosene from the Caribbean is scheduled for mid-September.

Brazil has enough oil to last 40 days. Two vessels transporting 38,000 cubic meters of fuel each for the petrochemical industry are scheduled to arrive shortly. This amount covers four days of consumption for the petrochemical plants. Petrobas is processing 1.3 million barrels per day of by-products at its refining plants, which are operating at almost maximum capacity in view of a possible oil workers strike next month.

Nuclear Fuel Element Production Process Mastered

PY2108195390 Sao Paulo O ESTADO DE SAO PAULO in Portuguese 18 Aug 90 p 16

[Report by Cilene Pereira]

[Text] The Institute for Energy and Nuclear Research (IPEN) is now able to produce, in series and using completely national technology, the fuel element that is essential for running its nuclear reactor. This was announced in Sao Paulo yesterday by physicist Spero Penha Morato, the IPEN superintendent. The mastering

of this manufacturing technique guarantees Brazil's full autonomy in the production of radioisotopes for use in medicine and industry.

Four of the 32 IPEN reactor fuel elements were manufactured in Brazil. They consist of groups of approximately 70-centimeter shields made up of a sandwich of two aluminum plates filled with an aluminum alloy mixed with 20 percent enriched uranium. Morato said: "In 1988, we produced the first Brazilian-made fuel element but only now have we been able to build the entire production line."

Because of limitations on IPEN on the import of fuel elements since 1982, the institute has been compelled to research ways to manufacture fuel elements used in Brazil. Meanwhile, IPEN economized on the existing fuel elements.

Now that it commands the fuel elements manufacturing process, IPEN hopes to increase the operation of its reactor from eight hours per day at two megawatts output to operating the reactor 24 hours per day at five megawatts. Morato added: "Once we are certain we can manufacture the fuel elements in Brazil, we will be able to increase the output of the reactor and begin to supply radioisotopes to the entire local market."

Nevertheless, only half of the national demand for radioisotopes is filled by IPEN, which is the only Brazilian supplier of these elements. The other half continues to come from abroad. IPEN believes that Brazil spends about $4 million (288 million cruzeiros) per year on imported fuel elements.

Medical radioisotopes are used to isolate some kinds of degenerative tissue, to produce graphs, and in local radiation treatment of tumors or other illnesses. In July, IPEN sold about $14 million-worth of assorted radioisotopes to Brazilian hospitals and doctors.

Encouraged by the success obtained with the manufacture in series of the two first fuel elements, Morato hopes to produce one fuel element per month as of August. In 1991, the objective of IPEN is to manufacture two fuel elements per month.

Very enthusiastically, Morato added: "We will build up a good stock".

To achieve these objectives, IPEN will need about $3.5 million (242 million cruzeiros) with which to update the reactor. "This way we will keep our independence" added Morato.

Chile

Aylwin Speaks on 'Reunion,' 'Consistency'

PY2108140390 Santiago Domestic Service in Spanish 2300 GMT 20 Aug 90

[Report from Chillan by Graciela Contreras]

[Excerpt] The chief of state has said here that, in their quest for reunion, Chileans are overcoming divisions and the hatred of the recent, painful past. Reunion will only be possible through a great patriotic effort, he added.

The president made these remarks during a speech he delivered at a ceremony in Chillan Viejo to mark the 212d anniversary of [Chilean independence hero] Bernardo O'Higgins Riquelme's birthday. He spoke before the Chillan community and before civilian and military authorities.

In his speech, Patricio Aylwin asked Chileans to live up to the lesson that O'Higgins taught everyone. Describing the life and deeds of O'Higgins, to whom he paid homage, and after reviewing O'Higgins' actions, Aylwin also emphasized O'Higgins' patriotism both as a soldier on the battlefield and as a leader of his nation, as a politician at the service of the general interest and concerned over the common good.

Afterwards, Aylwin noted O'Higgins' patriotism, an outstanding characteristic, and what he described as O'Higgins' consistency.

[Begin Aylwin recording] To be consistent is to translate one's words into deeds. To be consistent is to mold one's behavior to conform to the values and principles in which one believes. A person who preaches one thing and, in practice, does something else is not a consistent person.

O'Higgins was an admirable example of consistency. He believed in law and he abided by the law. He believed in the people's democratic will. He understood that a republic must be forged on the basis of the collective will of the people who form such a republic and, for this reason, he respected such a collective will.

Therefore, as a soldier, O'Higgins never brandished his sword against the will of the people. Therefore, O'Higgins accepted the will of the majority and, although he could have remained in power by using his military power, O'Higgins retired and gave up because he did not want to shed the blood of Chileans and wanted the Republic to be forged on the basis of the general will of the nation. [applause] [end recording] [passage omitted]

Woman, Son Leave Kuwait Through Iraq

PY2208001990 Santiago Domestic Service in Spanish 2300 GMT 21 Aug 90

[Text] A press communique released by the Chilean Foreign Ministry states that it has been confirmed that Chilean citizen Patricia Varas Torres and her son have left Kuwait through Iraq and that the two are all right. This information was obtained through the Chilean Embassy in Jordan which added that Mrs. Patricia Varas had said that she had talked with another Chilean resident in Kuwait, (Berenice Serenic Hidalgo), who said that she and her husband Pascal Telier are fine and that they are both waiting for authorization to leave Kuwait for France.

The Foreign Ministry communique also reports on the reaction of the Chilean Government on hearing about the Chileans residing in Kuwait and Iraq. The other Chileans still remaining in Kuwait are: Claudia Aida Elguieta Paves, married to British subject Anthony Borrow, and Adriana Briseno Gonzalez, married to Palestine citizen (Salam Mohamed Hussein). The Chilean Government is making efforts to find them and expects to hear from them in the next few days.

The Foreign Ministry communique states that the Chilean Embassy in the Argentine Republic has been instructed to reiterate a identical petition before the Iraqi Embassy in Argentina, a request to allow Chileans living in Iraq and Kuwait to leave those countries.

Authorization for Arrival of U.S. Troops Given

PY2208003990 Santiago Domestic Service in Spanish 2300 GMT 21 Aug 90

[Text] The Chamber of Deputies today unanimously approved the arrival of foreign troops in Chile and the departure of Chilean troops. This bill will be returned to the Executive Branch for proclamation. This means that U.S. troops are authorized to arrive in Chile to participate in the UNITAS 90 military exercises.

During a long Congressional debate the different political parties agreed that the bill required urgent approval and that no meaningful modifications could be made to it. Modifications, for example, to cover the possibility of sending Chilean troops to the Persian Gulf if the UN Security Council thus requested and if the Chilean Congress approved were not included.

Defense Minister Patricio Rojas was present at the Congressional session. He promised that if such an important decision had to be made, Congress would play an important role in it.

The bill that was approved today will expire on 31 December 1990 when the Executive Branch plans to present a new draft bill with permanent regulations to cover this situation.

Perez de Cuellar Ill; Suspends Activities

PY2108194190 Santiago Radio Chilena Network in Spanish 1700 GMT 21 Aug 90

[Text] UN Secretary General Javier Perez de Cuellar has suspended all his activities because he is suffering from flu. This was reported this morning by the Foreign Ministry Protocol Directorate and by the UN secretary general's spokesman.

Perez de Cuellar, who is making a three-day official visit to our country, was scheduled to have visited the ECLA [Economic Commission for Latin America] offices today and then to have gone to Valparaiso where he was to be received by the Chamber of Deputies president and by the Senate president.

Because of his indisposition, however, Perez de Cuellar had to suspend his heavy agenda, although he received Senate president Gabriel Valdes at the hotel where he is staying.

It has been reported that the UN secretary general felt the initial symptoms of the cold yesterday at noon and that the it became worse last night after a banquet hosted for him at the La Moneda Palace.

Perez de Cuellar will meet the press tomorrow before leaving for Colombia, the last leg of a Latin American tour that he made at a time when the United Nations is engaged in solving the Persian Gulf crisis.

Militants Leave MIR, Join Socialist Party

PY2108203090 Santiago Radio Chilena Network in Spanish 1700 GMT 21 Aug 90

[Text] At noon today 200 MIR [Movement of the Revolutionary Left] political faction student leaders and militants of the rank and file officially joined the Socialist Party [PS]. They will also participate in the Salvador Allende Socialist Unity Congress.

Speaking for the group, a former MIR leader from the University of Chile explained that they actually want to implement an old project of the Chilean left: a majority based on socialist ideology.

[Begin unidentified former MIR leader recording] We believe that this idea, this alternative, this quest to build that great project has no future within the MIR.

We joined the MIR debate a long time ago with the idea of participating in the plebiscite. We raised the need to support the president, to support the [opposition] coalition. We then continued to insist upon the need for a great renewal of the Chilean left sectors. [end recording]

Meanwhile, in the name of the PS executive board, PS Secretary General Jorge Arrate welcomed the young MIR people who have now joined his party

Arrate recalled the ethical meaning of the renewal of the left that was proposed more than 10 years ago in Chilean politics. He emphasized the fact that communist party militants—former radical party leader Anibal Palma at that time—and now the young MIR people have joined the Salvador Allende Socialist Unity Congress.

Colombia

'Protection' for Citizens in Kuwait Announced

PA2108225290 Bogota Radio Cadena Nacional in Spanish 1200 GMT 21 Aug 90

[Text] Bogota—Foreign Minister Luis Fernando Jaramillo has announced that the Colombian Government will give the necessary protection to Colombians

trapped in Kuwait and Iraq. Jaramillo made this announcement following a meeting in Bogota with Muhammad Abu al-Hasan, Kuwaiti ambassador to the United Nations.

The foreign minister said that the information that the government has on the status of Colombian citizens in Kuwait is very fragmentary, but announced that the administration would work intensely to protect Colombian nationals who are there.

Medellin Cartel Security Sytems Chief Arrested

PA2208021190 Paris AFP in Spanish 1823 GMT 18 Aug 90

[Text] Bogota, 18 Aug (AFP)—The Administrative Department of Security (DAS) today reported the arrest of Spanish citizen Pablo Blanco Felix, identified as the person responsible for the security systems at the properties of Medellin Cartel chief Pablo Escobar.

Blanco Felix, who has a resident visa, was captured in the northeastern city of Medellin where he owns the Segontex Company. Through this company Felix provided security services to the various buildings belonging to the cartel, authorities said.

Arrested with the Spaniard was Colombian Humberto de Jesus Parra Salinas. The DAS has accused him of being the head of the cartel's hired killers who come from Medellin's poor neighborhoods.

The two were transferred to Bogota and turned over to a judge.

Paraguay

Nation To Join Southern Cone Common Market

PY2108220790 Asuncion ABC COLOR in Spanish 21 Aug 90 p 10

[Text] At Government House yesterday, Foreign Minister Alexis Frutos Vaesken disclosed that the government has agreed to Paraguay's inclusion in the Southern Cone Common Market. Minister Frutos Vaesken will travel to Buenos Aires tomorrow to discuss this subject with Argentine President Carlos Saul Menem and his Argentine counterpart Domingo Cavallo. He will then go to Uruguay, Chile, and Bolivia, the other countries interested in this integration process.

When asked yesterday at Government House, Frutos Vaesken said: "It has been officially decided that Paraguay will become member of the common market." Frutos Vaesken visited Brasilia two weeks ago and he will go to Buenos Aires tomorrow to continue the talks. In Buenos Aires he will be received in a special audience by President Menem. He will also meet with Economy Minister Antonio Erman Gonzalez, and Supreme Court of Justice President Ricardo Levene (Jr).

Integration within the framework of the Southern Cone Common Market and other issues of bilateral interests, like the Yacyreta bilateral dam project, the location of the proposed Corpus dam, the Pilcomayo River project, and a review of bilateral trade and economic cooperation are some of the issues that Frutos Vaesken will discuss with Cavallo.

The Paraguayan delegation to Buenos Aires will include Foreign Ministry Under Secretary Hugo Saguier Caballero and Efrain Dario Centurion, the international economic relations under secretary, who will participate in working meetings with officials of the two Foreign Ministries.

Saguier Caballero disclosed details of the agenda of Minister Frutos Vaesken for the next few days: On 22, 23, and 24 August Frutos Vaesken will meet with his Argentine counterpart in Buenos Aires.

Saguier added that the foreign minister will have an open agenda to be able to discuss various issues of mutual interest. He added: "The foreign minister is going to greet and to become acquainted with the authorities of brother nations. He will visit Montevideo, Uruguay, on 30-31 August and on 17 September he will meet with his Bolivian counterpart in Santa Cruz de la Sierra." He also plans to visit Santiago, Chile.

Saguier Caballero ended by stating that the foreign minister "will address the United Nations General Assembly in New York on 26 September."

Investigation of U.S. Troop Presence Requested

PY2008175490 Asuncion HOY in Spanish 19 Aug 90 p 10

[Excerpt] The Popular Democratic Party (PDP), "concerned over national sovereignty," has confirmed its desire "for the honorable National Congress to fully investigate the presence of regular U.S. troops in our territory between 7 and 21 July to participate in a joint operation called 'Potyby-90'." The PDP also requested that the matter be investigated through the Foreign Ministry on 31 July. [passage omitted]

MNR Militants Reportedly Barred From Politics

PY2108173490 Asuncion ABC COLOR in Spanish 21 Aug 90 p 5

[Text] Martin Chiola, leader of the National Republic Movement (MNR), was summoned to appear before General Francisco Sanchez, chief of the Asuncion Police Department, at 0800 on 18 August. It has been reported that Sanchez warned the leader of the MNR—which is made up of notorious members of the Colorado Party Militant faction, followers of ousted dictator Alfredo Stroessner—that no MNR member could engage in political activities in our country "until 1993." Sanchez reportedly made it clear that the prohibition affects the Militant movement as a group as well as each individual member.

Sanchez and Chiola reportedly exchanged harsh words during the one-hour meeting as the police chief conveyed to Chiola the "order from above."

It has been reported that the Sanchez-Chiola meeting took place a few hours before a Militant rally in San Juan Bautista, Misiones Department, where the people hailed and cheered Stroessner.

The ban on MNR political activities was apparently prompted by recent meetings of Militant members, especially one held in Fassardi, where they met with leaders of the Colorado Party's Orthodox faction and in particular with Deputy Genaro Sanchez, who claimed to represent Colorado Party Chairman Luis Maria Argana.

Peru

Economy Minister Speaks on Inflation, Strike

PY2108115590 Lima Television Peruana in Spanish 0100 GMT 21 Aug 90

[All figures as heard]

[Text] Juan Carlos Hurtado Miller, president of the Council of Ministers and economy minister, has said that inflation is dropping. He said that inflation was negative seven percent on 18 August. Thus, he expects inflation to drop to 170 percent by December. He also reported that the fourth part of the 12.5 billion intis issued by the Central Reserve Bank for the economic stabilization plan has been returned to the Central Reserve Bank.

[Begin recording] [Reporter] Many economists request a change of the economic policy because they think that it is causing a recession. What can you say about this? Will there be any changes?

[Hurtado] They must be patient. The program was only launched 10 days ago. Nothing can change in (?10 days), no results can be seen yet. The truth is that inflation is dropping daily. Currently, the worst scourge of the people is inflation. People will level their income as inflation decreases [words indistinct]

[Reporter] But Minister, the new wage increases apparently do not satisfy the workers or the opposition sectors.

[Hurtado] Two things should be taken into consideration. Wage increases in our country will unfortunately never meet the needs of the people. Real income has deteriorated since 1985. Second, inflation is dropping. If we persist in our effort to reduce inflation until the end of August, people's real income will actually increase. Inflation will be much less than what we calculated, and the income that we had calculated based on a greater inflation rate will be greater, thus there will be a direct effect on income. [sentence as heard]

[Reporter] What would you tell the workers who are preparing a 24-hour strike for tomorrow?

[Hurtado] I would tell them to be patient. It is not possible that 10 days after launching the program they should begin to protest. However, it is their right to do so. The right to complain exists. However, I ask them to be patient. People should not join it. I call on the people to be understanding and patient. We cannot do in 15 days what has not been done in the past five years.

[Reporter] Minister, have there been talks with the trade unions to avoid the strike?

[Hurtado] I visited them and we proclaimed a supreme decree creating the National Council for Workers-managers Accord [Consejo Nacional de la Concertacion]. When they calm down we will call them to sit at a negotiating table. That is how the workers must make their demands, through a negotiating table, through their leaders. [end recording]

Strikes Continue, Limited Effects Felt in Lima

PY2108224790 Madrid EFE in Spanish 1841 GMT 21 Aug 90

[Excerpts] Lima, 21 Aug (EFE)—The shortage of transportation in Lima did not prevent a high percentage of people from going to work on the day of the 24-hour "national strike" called against the measures implemented by the government of President Alberto Fujimori.

Early this morning, soldiers and policemen enforced strict control in Lima after two cars loaded with dynamite exploded last night. Several other attacks were also carried out last night.

The National Police reported that people on the picket lines today threw rocks and built fires on the main avenues leading to the Lima industrial and commercial sectors. These obstructions prevented normal traffic circulation. [passage omitted]

Labor Minister Carlos Torres emphasized the fact that many people either walked to work or went by other means because they did not want to lose a day's salary.

This is perhaps one factor which unions did not consider: The workers cannot even lose a single day's salary because of the critical economic situation.

Shining Path terrorists carried out several attacks yesterday. They murdered two businessmen in Lima and caused a power outage in the capital. Several Lima districts are still without electricity.

Terrorists also murdered cattleman Rodolfo Huerta Maza yesterday in Catac, Ancash Department.

The government continues to implement austerity measures in accordance with its economic stabilization plan. The public sector, which operates under the labor regulations of the private sector, will not be able to grant salary increases until 31 December 1990.

The police have reported that more busses are beginning to run in Lima. Only municipal busses ran early this morning. The remainder, which represent 90 percent of city transportation, did not run.

The Mining and Metallurgical Workers Federation, which represents about 70,000 workers, announced that it will carry out a 48-hour strike starting today. The Bank Workers Federation, which represents about 40,000 people, also announced that it will obey the strike.

Units of the Army, Navy, and Air Force with the support of the police are enforcing order and clearing the streets in Lima.

The security forces were concentrated in the Engineering School, and in the Villarreal and San Marcos Universities where students usually create disturbances in support of the strikers.

Some bus drivers told EFE that they did not have enough guarantees "to risk working." They recalled that busses have been set on fire in the past.

The Labor and Education Ministries reported that workers and students have two hours tolerance to get to work and to school.

So far there have been no reports of serious disturbances created by the national strike.

Terrorists Occupy Town, Kill Three People

PY2108231190 Lima EXPRESO in Spanish 14 Aug 90 p 6

[Text] Members of the Shining Path terrorist group occupied a town, set it on fire, and killed three people. This information was confirmed today by Hector John Caro, the Chief of Police of the 4th Region, who added that the terrorists attacked the district at 0100 on Sunday, 12 August, and killed Huasta Mayor Saul Valdez Cano, 45, who belonged to the Fredemo [Democratic Front]; the president of the peasant community Elias Jara Veramendi, 50; and former Huasta Mayor Marcelo Garro Ocrospoma, 65. The terrorists dragged these three people out of their homes to the Plaza de Armas where they riddled them with bullets.

Caro also explained that before the attack the terrorists tried to attack the towns of Llaclla, (Canis), and Cajamarquilla but they spotted a police patrol and fled through Huasta, killing town authorities, holding up several stores, and distributing subversive material.

General John Caro said that the 4th Region, which is under his command, has requested that a state of emergency be declared in Casma and Huarmey Provinces in view of various acts of violence.

Caro also disclosed that the National Police station in (Rajan) district, Ocros Province, has been reactivated with 30 policemen headed by Lieutenant Williams Angeles Alegre.

Terrorists Bomb Electric Power Poles in Lima

PY2108153090 Lima Television Peruana in Spanish 1100 GMT 21 Aug 90

[Excerpt] A huge blackout occurred in Lima after terrorists bombed several high-tension power poles, restricting the power supply by more than 50 percent. This wave of terrorism has been strongly condemned by the people.

More than 50 percent of Lima's residents are without power this morning due to a series of terrorist attacks in Lima last night. Residents of the new Los Olivos District reported that at 2100 last night three youths placed several bombs at the base of a high-tension pole. Despite the explosions, towers 617 and 618 did not collapse.

There was a huge blackout in Lima after the explosions. Less than 50 percent of the power supply has been restored. [passage omitted]

Uruguay

Espiell Addresses Nuclear Treaty Conference

PY2208024090 Madrid EFE in Spanish 2001 GMT 21 Aug 90

[Text] Geneva, 21 Aug (EFE)—Today Uruguayan Foreign Minister Hector Gros Espiell stressed that Latin America will not be a zone totally free of nuclear weapons until Argentina, Chile, Cuba, and Brazil ratify the Nuclear Nonproliferation Treaty.

Espiell, who addressed the Fourth Conference on Revision of the Nuclear Nonproliferation Treaty today, stressed that Uruguay is making every effort to get those countries to ratify the treaty and the Proscription of Nuclear Arms in Latin America Treaty, better known as the Tlatelolco Treaty.

The Uruguayan minister highlighted the safeguard agreements that were achieved by the IAEA [International Atomic Energy Authority] in 1987 with nine countries that do not possess nuclear arms, but do carry out intensive nuclear activities, including Argentina, Chile, Cuba, and Brazil.

Espiell said: "The basic reasons some countries have still not ratified the Nonproliferation and Tlatelolco Treaties must be looked at with sincere self-criticism."

According to the Uruguayan foreign minister, the fourth conference must be fully convinced that no member state has possessed nuclear arms since this international rule was implemented.

He added: "The question of nonproliferation must be of universal interest and it is an indispensable rule to prevent the planetary devastation and holocaust that would be caused by a nuclear war."

Espiell indicated that at this conference, he favors Nigeria's proposal, which requests implementation of "negative" safeguards by the IAEA.

He said: "This fundamentally important negative guarantee is based on an unavoidable international moral obligation through which countries that do not possess nuclear arms have a full right to demand the assurance that member countries of the Nonproliferation Treaty will not use this type of weapon against them."

The minister reaffirmed Uruguay's desire to fully, justly, and in a nondiscriminatory way, cooperate in actions against the proliferation of nuclear arms, indicating that Uruguay "hopes this action will lead to a complete, direct struggle against all types of arms."

Venezuela

Perez on Proposed OPEC Meeting, Oil Issues

PA2208021990 Caracas Venezolana de Television Canal 8 in Spanish 0000 GMT 22 Aug 90

[Text] President Carlos Andres Perez has stated that the OPEC meeting has not been totally rejected and that this week will be decisive in determining if the meeting will be held.

[Begin recording] [Perez] The situation continues to be difficult. There is no need to be hasty. Today, our country's moral authority has gained international acceptance. We have lost absolutely nothing. Hopefully, the decision will be made to hold this meeting during the weekend.

[Reporter] [Passage indistinct].

[Perez] No. No, that is not true. It is not that the media lies, but it publishes, it speculates on statements that have been given in each of our countries. Saudi Arabia and Venezuela have been coordinating activities from the moment the crisis started.

[Reporter] The newspapers in Caracas published today that you had authorized an increase in Venezuela's petroleum production.

[Perez] This is why I tell you that the problem is in the manner in which news is given. Venezuela will maintain its production as scheduled during this month, and will then proceed to make a final decision. Our decision will also take into account the International Energy Association's position. [end recording]

These statements were made by President Perez in Matulin, Monagas State, where he inaugurated Venezolana de Television's broadcasts to Eastern Venezuela. Venezolana de Television President (?Alvaro Hilacha) accompanied President Perez at the ceremony.

Government To Ask Iraq To Release Venezuelans

PA2108231190 Hamburg DPA in Spanish 2133 GMT 21 Aug 90

[Text] Caracas, 21 Aug (DPA)—With the support of the Argentine and Brazilian Governments, Venezuela will call upon Iraq to allow 50 Venezuelans who live in that country and Kuwait to leave, a top Venezuelan Foreign Ministry official reported today. Deputy Foreign Minister Adolfo Raul Taylhardat announced today that Iraqi Ambassador in Caracas Majid al-Samarra'i was summoned to the Foreign Ministry to convey to his government an official request to allow approximately 50 Venezuelan experts, students, and diplomats to leave that strife-torn Persian Gulf region as soon as possible.

Approximately 45 Venezuelans who live in those two countries work in the oil industry. In addition, there are four diplomatic envoys, including the ambassadors in Iraq and Kuwait, according to the official report. "The Iraqi Government must provide all the necessary facilities to allow those Venezuelans to leave the area," Taylhardat noted. He added that diplomatic officials, with the support of the Argentine and Brazilian embassies in the region, are cooperating in this action.

Venezuelans may depart the region on 22 August, aboard a special Lot Polish Airline charter flight headed for Warsaw. Taylhardat said that the Iraqi ambassador was summoned to the Venezuelan Foreign Ministry and asked to take steps concerning the Venezuelans' departure.